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**Empowering The Individual
Within A Productive Franchise Relationship**

SUBMISSION FOR DOCTORATE IN PROFESSIONAL STUDIES

National Centre for Work Based Learning Partnerships

Middlesex University

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May 2004

“Creative Franchising could be said to be ushering in a period of greater ‘democracy of opportunity’”.

Moshe Gerstenhaber

Empowering The Individual Within A Productive Franchise Relationship

Abstract

1. The rapidly changing economic and social environment, in our ever shrinking global community, calls for a drastic review and reappraisal of the 'way we do business'. A projected doubling of the world population in the next 50 - 70 years, all of it within the already struggling developing nations, must be taken as a 'wake up call' for the world's 'community of professionals'.
2. The National Centre for Work Based Learning Partnerships has embarked upon a mission designed to assist professionals to update their own knowledge and skills portfolios whilst at the same time providing a 'product' containing a distilled, reflected and thought out treasure trove of experience. Such practical experience will help build up the 'body of knowledge' of the greater community in which they operate i.e. other professionals.
3. The candidate himself has embarked on a personal journey which, when started, was structured to achieve the following:
 - To capitalise upon previous professional learning, taking advantage of a unique opportunity to reflect upon the merging of formal and informal study, practical experience and new insights gained over the years to produce a brand new composition of far greater quality and scope than previously achieved.
 - To capture the essence of own Franchising experience, knowledge and feel for the benefit of Franchisees, Franchisors, Government and Academia, i.e. to the benefit of the greater community.
 - To think 'outside of the box' and offer new ideas and suggestions for consideration i.e. how a revitalised and courageous Franchising can contribute to the well being of the global and local communities.
 - To gain the pleasure of achieving the Doctorate in Professional Studies degree.
 - To be recognised 'in the public domain' by other professionals in the economic, social and Franchising communities.
4. As far back as 1943 Sir Winston Churchill recognised and acknowledged that skills and expertise, as well as, the wide distribution of same throughout society are the key to success, when he said:
"The empires of the future are the empires of the mind".
(From a speech given at Harvard University 06.09.1943)

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1. The MG personal vision for the D.Prof Submission –

Setting out on a long and arduous journey is not a trifling matter. Neither was the decision to seek to join the Doctorate in Professional Studies Programme at Middlesex University taken lightly. Nevertheless, the candidate embarked on a route which as far as he was concerned - (having spent some 40 years in the study and practice of Franchising) - he was almost pre-destined to travel.

1.1 Why was it considered necessary to produce the Submission -

Franchising, it is said, is tried and tested and can trace its origins to Feudal Europe¹; although the type or style of Franchising with which the Submission is concerned is more closely related to the manufacturer/retailer distribution system implemented by the Singer Sewing Machine Company around 1860². Yet, despite the ever increasing recognition and utilisation of the Franchising concept (in one form or another) by major Corporations in growing and vital sectors of the economy, especially 'becoming a general feature of the automobile industry'³ in the USA and elsewhere; it is the view of the candidate that:

- Many aspects of Franchising are quite subtle and in consequence not always clearly understood, especially by newly established Franchise Companies employing the 'Business Format Franchising' version. This encourages misunderstandings, mistrust and conflict, and can lead to inefficient utilisation of resources, as well as, to emotional hardship and at times complete financial ruin.

'The Business Format Franchising Concept' has basic distinctive features which are at the heart of both its popularity and the conflicts which affect it. One such aspect is "the close and continuous control exercised by the Franchisor. Franchisors prefer it because they believe that the Franchisees

¹ "Franchise (Norman French 'Franchise') has a technical meaning at common law. It is a royal privilege or branch of the Crown's prerogative subsisting in the hands of a subject either by grant or prescription. Franchises are of two classes:
i. Those originally forming part of the Crown's prerogative and exercisable therefore by the sovereign before being granted to a subject e.g. wrecks, royal fish, forests; and
ii. Those which can only be created by granting them to a subject e.g. fairs, markets etc. The owner of a Franchise has the right of preventing all other persons from interfering with its exercise"

Adams et al., 1987

² "The earliest recognisable form of modern distributorships began in the United States after the Civil War when the Singer Sewing Machine Company instituted a manufacturer/retailer distribution system".
Jack 1957

³ "In the inter-wars period franchised distributorship agreements were to become a general feature of the automobile industry. Indeed Ford was able to extricate itself from financial difficulties in 1921 by off-loading inventory on to its distributors".
Macaulay 1966

will work harder, which in turn will benefit them more in the long term than distribution through managers'⁴.

This specific evolution of 'sharing the market opportunity' with the Franchisee is seen by some business people to be a "particularly suitable strategy to adopt in the case of business where employees behaviour is difficult to monitor. This would explain why it seems to have developed first in the catering industry. In business format franchising, the franchisor retains similar control over the franchised outlet, as over a managed outlet. The reality is that it is a kind of managed outlet, in which the franchisee risks his capital. The risk of capital is itself a control device"⁵.

- The Candidate view is that the diverse opinions expressed on pivotal issues such as the degree of 'control' exercised by Franchisors are an excellent testimony to the need to increase the numbers of practising and reflective Franchisors and Franchisees willing and able to contribute from their own experience to the knowledge base and practice base of Franchising.

1.2 Some of The Challenges Inherent in the Nature of the Franchising Concept-

The Franchise (or System Leasing) Concept is a powerful marketing tool for the effective distribution of products and/or services to the customer. Ideally, it combines the energy, enthusiasm, commitment and aspirations of the individual with the Systems, Expertise, Branding and Experience of the successful Franchisor and therefore offers the customer an opportunity to obtain quality services and/or products in a positive and professional environment. All parties gain from the exercise:

- i. The customer by getting excellent value for money and product consistency.
- ii. The Franchisee by establishing a successful and profitable business rather quicker than he could have done on his own and without the risks of taking incorrect decisions on major aspects of the business. The System is there and the Franchisee needs only follow it diligently.
- iii. The Franchisor achieves a much faster market penetration and overall greater market share by 'sharing' the market with the Franchisees. Through this 'market sharing' Concept the dynamics which the Franchisor experiences are as follows:

⁴ "As well as raising capital, a reason for adopting the system in the motor trade was the general need for purchasers to trade-in their existing model against a new one. It is difficult to see how any other system could have coped with this peculiar feature of the industry".
Sloan Jr, 1964

⁵ Adams et al., 1987

- The actual capital invested in each Franchised 'unit' is provided by the Franchisee.
- The Franchisor reduces his risk exposure but also receives only part of the turnover generated by the activity.
- Although the Franchisor only receives a small part of the turnover of each 'unit' because of the reduced requirement for Franchisor risk capital the actual return on capital employed can justify the 'lost income opportunity' when the Franchise System is large enough and is operating efficiently i.e. enjoys economies of scale.

However, no economic activity is ever without its sensitive areas and Franchising is no exception. The fact that the Franchisor shares the market opportunity with a substantial number of individual Franchisees (actually 'business owners') may lead to areas of tension and it's better to be aware of them and the reasons for their emergence in advance in order to be able to deal with them successfully, and in good time.

- A Franchisee is an independent businessperson who puts his/her capital, as well as, his aspirations at risk. The ultimate success of the outlet/unit will depend on both Franchisor and Franchisee understanding, accepting and meeting their respective responsibilities. Treating the Franchisee as a glorified employee is not likely to achieve the desired personal and/or business success.
- Franchising success on a 'grand scale' can be achieved and maintained only when the Franchisee is able and willing to implement the excellent Operating System and Business Methods developed and constantly updated by the Franchisor whilst injecting into the challenging daily activity all the passion and commitment which business ownership requires and success reinforces.
- The practice of Franchising, could be said, to resemble, to some extent, the trials and tribulations experienced in managing the affairs of a democratic state; especially where the population is composed of widely diverse ethnic and interest groups. Sir Winston Churchill summed up the situation as follows:
"No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time." (Hansard 11/11/1947)
- The following list is being produced to highlight the issues which are representative of the experience of Franchisors and Franchisees. It can be claimed that the Franchise concept is successful despite the constant power struggle taking place between Franchisor and Franchisee which is so typical to it. The successful Franchise system, it could be said, is the one where the balance of power remains in the hands of the Franchisor but the balance of benefit is enjoyed by the individual Franchisee.

Additional research and study of the following issues will always be welcomed by the Franchising community.

1.2.1 Franchisees -

- Despite the fact that the individual Franchisee will have invested substantial sums in the business (in the larger Franchises often committing the matrimonial home as security for Bank borrowing) it is not a forgone conclusion that the Franchisee will diligently follow the Business Systems of the Franchise.
- The Franchisee is responsible for developing the market and establishing a positive relationship with the customers. The Franchisee does not always either put in the level of energy required nor the quality of service and value.
- The Franchisee is expected to use the Franchisor H.Q. personnel to help him develop the business by way of back-up support teams, to answer questions and offer direction. To establish these lines of communication into a 'two-way street' is not an easy task because the Franchisee all too often either fails to share with the Franchisor his issues and problems as they develop or resents Franchisor input as interference.
- Franchisees at a different stage of their development, growth or success levels have different needs, demands, expectations and attitude. It is a demanding task for the Franchisor to try and reconcile these divergent views and still keep a good club or family feeling within the System.
- Because Franchisees 'own' their individual business (although they don't own the Franchise, they only have a 'lease' to the System – or a license to operate it in a certain location or geographical area - for the duration of the relationship) there is a strong opportunity for 'misunderstanding' about the 'rights' and how the individual units or the Franchise itself operate. The facts are clear in as much as the System is owned exclusively by the Franchisor whilst the Franchisee is expected and contracted to operate this System vis the customer. The relationship with the customer and the management of the Unit are the responsibility of the Franchisee.
- In large Franchise Systems it is not unusual to find some Franchisees seeking to engage in a power struggle with the Franchisor and to this end enticing fellow Franchisees into distractive and at times even destructive political manipulations. In a small customer facing business the time of the owner/Franchisee must be dedicated exclusively to the proper running of the business and thereby to meeting customer needs.

1.2.2. The Franchisor

- It is not easy for Franchisees to understand and accept the full extent of the Franchisor's responsibilities and complete ownership of the 'Brand'. This ownership extends to the Logo (and its modifications from time to time) the Operating Systems, Corporate Identity, Shop Fitting Style (where appropriate) etc. The Franchisor is responsible for updating every aspect of the business whenever it is necessary – usually to reflect changes in market conditions, customer need/tastes, technology, etc. The individual Franchisee is not always aware of these changes or keen to make the necessary investments. The good Franchisor will be aware of the emotional difficulties which the Franchisee is experiencing in such circumstances i.e. the Franchisee, whilst the acknowledged 'business owner', could be advised by the Franchisor that it's time to make additional investments including possibly changing the internal and external design of the premises. The Franchisee is experiencing two demands: the need to find the funding necessary to carry out the work whilst at the same time having to cope, once again, with the realisation that the Franchisor is entitled to make decisions which affect his business in a fundamental way. The good Franchisor will be sensitive to the impact which such decisions are likely to have on Franchisees and will seek co-operation rather than reach out to impose its will through coercion. The Franchisor will consult with Franchisees possibly through a working group composed of Franchisees and HQ staff, as well as, maintain a continuous flow of information about ideas and progress so that the ultimate decisions should not be a complete surprise to the individual Franchisee.
- One of the Franchisor's greatest challenges is to keep a dialogue open between HQ and each individual Franchisee. Even when the Franchise has a representative body for the Franchisees (Franchisee Association) it is essential to communicate directly with each Franchisee. Not all Franchisors are able to keep these lines of communication open and ensure that the information flowing represents the facts. All HQ personnel must be educated to deal with the Franchisees in a transparent, honest and sincere way.
- The Franchisor is challenged to recruit good quality employees, offer reasonable terms of employment and appropriate training so that each person can deliver quality service to the Franchisees and value to the System as a whole.
- The overall demands on the time of the Franchisor and the HQ employees are substantial. Therefore, effort and commitment are needed in order to assure that everything which needs

attention is actually receiving the skills and time allocation which is required. A Franchisor which fails to meet these standards will be unable to implement the Systems throughout the Franchise and maintain integrity and quality.

- To maintain a significant market share is a difficult proposition. The Franchisor is responsible for the development of market knowledge and understanding and subsequently the production of marketing plans, sales campaigns, sales aids, etc. The Franchisor is also responsible for communicating to the individual Franchisee the rationale for the proposed marketing and sales-building activity and further to try and motivate the Franchisee to implement the programme as recommended. Here too the Franchisor needs to invest not only a great deal of energy but also use subtlety in order to achieve the desired impact. Franchisees need to be motivated rather than dictated to.
- In most cases the size of the Franchisors' own business is not substantial. It will qualify as a small to medium size business. Considering that from this modest base the Franchisor is reaching out to a substantial network of Franchisees and a large community of customers means that the Franchisor is challenged to manage its own affairs effectively. This also means being aware of cost controls, effective management of staff, cash management, etc. One of the issues Franchisors have to be very careful with is credit control and collection. A Franchisor which is lax about the collection of on-going Franchise Fees (and other fees/rents when applicable) will very quickly find its relationship with Franchisees deteriorating and its actual survival as a business threatened. Franchisors need to install proper business systems and apply them diligently.

1.2.3 Parent/Child Relationship –

- The Franchise relationship starts, mostly, with the Franchisee being acutely aware of the need to rely on the expertise and support of the Franchisor. This is a period of intense education, learning and training; a magical process of knowledge transfer and sharing of expertise.
- The initial stage of total dependence upon the Franchisor is over before the Franchisee is 'let loose' on the market. The Franchisee has been 'equipped' to a high enough level to be able to meet the needs of the customer. Naturally, at this stage the new Franchisee has a great deal yet to learn, not least about the subtleties of customer/supplier relationship.
- From this point in time the balance of power starts to shift i.e. the Franchisee is building up his/her own confidence and begins to re-assert own personality and opinion. This is a

healthy process since the success of the Franchisee's own business depends on his ability to operate independently and with confidence in the designated market.

- At some stage, the timing depends on the individual; many Franchisees start to feel that, as they are the ones who operate at the sharp end, it is they who are best placed to make decisions regarding the direction of their individual unit as well as the Franchise as a whole.
- Throughout the Franchise Relationship there is an ongoing sense of slight friction between Franchisor and Franchisee regarding who knows best what is best for the system. The successful Franchise is the system, which involves the Franchisees in the various activity areas such as marketing, technology, training, etc. The Franchisor, through this interaction, is able to extract valuable opinion and expertise from the Franchisees and use it to add further substance to the store of business skills and greater vision, which the HQ team must possess.

1.2.4 Paying fees –

- Franchisees do not like paying their ongoing fees.
- Once the individual Franchisee is up and running, he/she continues to pay a weekly or monthly percentage of sales (not profit). The Franchisee pays the fee for the use of the brand, the operating system, the marketing program, etc. Unfortunately, much of it seems to the Franchisee, after the initial sense of awe is over, invisible or too abstract.
- The Franchisor can never change the sense of frustration which many Franchisees feel, as they write the cheque each week/month, especially in the large Franchises where the absolute amount is substantial. The good Franchisor is the one where the overall benefits package which is available to the individual Franchisee offers good value and where by following the system the individual Franchisee can earn a decent return on his investment in time and money.

1.2.5 Maximising the market potential –

- The Franchisor, by licensing the individual Franchisee to operate in a specific market, is giving up his own option to establish a unit there. Therefore, it is important to the Franchisor that the Franchisee invests a great deal of effort in order to maximise the potential benefit. For the franchisor the benefit comes in the form of brand awareness, market share and income (by way of the ongoing fee).

- Despite all efforts by the Franchisor to cajole the Franchisee to maximise the potential which the Franchisor estimates the local market can provide, it is the individual Franchisee who decides (by will or omission) the level of activity which will be transacted.

1.2.6 Business owners or glorified managers –

- As stated earlier, in the good Franchise System the Franchisee is clearly a business owner, not an employee.
- A good Franchisor wants the Franchisee to run the business with passion, energy and determination. The Franchisee puts a great of his worldly goods at risk – often the matrimonial home, too – and must be motivated to succeed.
- The Franchisee is expected to be an Enterpriser rather than an Entrepreneur (see MG definition).
- The Franchisor needs to invest a great deal of effort to explain and impress upon the individual Franchisee the fact that the long term guardian (as well as owner) of the System and the Brand is the Franchisor and not the Franchisee.
- A good Franchise System which has been operating for some years has a large number of Franchisees. Each individual Franchisee is located at another point on the ‘participation curve’ i.e. how many more years before they exit. Therefore, their needs are obviously different and their expectations from the Franchise are different.
- The good Franchisor must make sure that each Franchisee, including the new one who has just started and the older one who is about to depart, are catered for but in different ways. The individual Franchisee ready to sell his/her business and to move on, is not as concerned as the new Franchisee about the long term viability and prospects of the Franchise as a whole. The Franchisor has both business and fiduciary responsibilities towards each individual Franchisee.

1.2.7 New Investments/Updating the Unit –

- Every business must continue to invest in itself over time or it will go bust.
- Since the Franchisee is the owner of the unit which he operates, it is the Franchisee who makes the additional investment and takes the additional risk when future updating is required.
- More often than not it is the Franchisor who raises the issue of future branding investments and/or equipment outlays. The Franchisor invests in the development of the branding elements and the Franchisee is expected to make the specific investment required in the unit.

- It is not unusual for the individual Franchisee to reject, or at least resist, the call of the Franchisor to make additional investments, especially when they are for branding aspects. The Franchisee is not always able or willing to see the value of updating the brand; these could include investments in new shop fittings, etc.
- The Franchisor, despite the almost instinctive resistance of the individual Franchisee to make further investments in what may seem to him to be an intangible, needs to persevere through explanation and demonstration. A Franchise System which fails to update itself will lose market share, market penetration and eventually, fail altogether. (Some Franchisees have a tendency to overinvest in equipment.)
- Quote –
“There is a difference between formal independence (as expressed in the contract) and operational independence (as experienced in the course of the relationship)”.⁶

1.2.8 Keeping to the System –

- The underpinning reason a good Franchisee joins a Franchise System has to be that the individual has come to a reasoned decision that being able to capitalise on the brand, the business opportunity and the operating system of the Franchisor is well worth the up-front fees, ongoing fees and restriction on the ‘scope’ of the business.
- One of the strengths of the good franchised business (like any good business) is that it has a focused approach to meeting the needs of the market place i.e. the Franchisor has developed a business opportunity and market offer, which enough customers are willing to buy and pay for, in order to provide a decent living for the individual Franchisee.
- Within the framework of the market niche which the brand is targeting the Franchisee is free to be creative. However, the best use of the Franchisee’s time and the most rewarding financially would be to stick closely to the successful package of ‘tools’ which the good Franchisor is providing. Therefore, the good and successful Franchisee is not likely to feel that they are being restricted.

⁶ Stanworth 1984, 1991

- It is often a Catch-22 situation. The Franchisee who for some reason is not willing or able to keep closely to the System is the one to criticise it and offer opinions that the system does not work. Only when it comes to 'changing the System' or trying to establish, without the Franchisor's permission, additional units in non-licensed territory the following quote is correct: "Even though a Franchisee owns his own business he is not his own boss".⁷

1.2.9 Expansion –

- Within his licensed territory the Franchisee is encouraged to build up the business to the extent that the potential of the market is maximised.
- The Franchisor (and other Franchisees) discourage the individual Franchisee from seeking business in markets other than the one(s) licensed to him by the Franchisor.
- Pure retail Franchises are less of a problem. The conflict can arise when the Franchisee operates from a van or the franchised business (like printing) encourages the Franchisee to canvass for trade from the local business community.
- In the case of the 'print-shop' franchisee, it has been proven that the greatest benefit will be derived (assuming the unit has been located within a good catchment area) from investing the marketing effort on the business community closest to the unit, say within a radius of a few hundred metres.
- The Franchisor has a duty to try and avoid a price war developing amongst his own Franchisees. Unnecessary aggressive marketing and pricing by some Franchisees in their own, but especially adjacent markets, not only damages their and their neighbour's bottom line but could also bring the brand into disrepute.
- When a Franchisee wishes to acquire an additional licence for an additional territory(s) the Franchisor needs to be certain that not only will the Franchisee develop the business successfully in the new location but also continue to do so in the existing one. Operating two successful units (or more) is much harder for most business people than doing so in one location; it requires different experience and a different set of business management skills. Yet, many Franchisees are reluctant to accept this view.

⁷ Baillicu, 1988:4

1.2.10 Brand Decline –

- As stated earlier, any ‘customer proposition’ which is not re-visited, updated and re-vitalised regularly and fails to meet perceived customer needs is bound sooner or later to falter. These days customers are far less inclined to continue to patronise a business when their real or perceived needs are not met.
- A Franchisee of a Franchise System which is in serious decline is likely to be in a very difficult position. The reasons for the decline are important e.g. is the market where the Franchise operates declining or is the problem the result of new and more aggressive competitors.
- The individual Franchisee in a weak Franchise System is more likely to be able to act as an independent business owner because one of the reasons the system is in decline has to do with the ability of the Franchisor either to understand market changes or to implement internal changes necessary to refocus the system.
- In this particular case the following quote may be relevant:
*“Others take the more extreme view that being a Franchisee is a greater risk than starting a ‘normal’ independent small business (Weinrauch 1986; DNES 1989).
Hough (1986:221) when discussing the termination of Franchise contracts maintains that: -
“Franchisees could suffer financially more than they would have done if the business had not been part of a Franchise”.
This she attributes to the fact that the task of disposing of equipment and stock trademarked with the Franchisor’s name may be harder than disposing of non-trademarked equipment and stock. Thus the cost of withdrawing from a franchised business may be greater than withdrawing from a non-franchised business.”*⁸

⁸ Forward and Fulop, p.25

1.2.11 Internal Politics –

- It's a funny 'thing' politics. It seems whenever a group of people gather, someone enjoys the acquisition of power.
- It is a fact of life that within the Franchise System, over time, political activity will develop.
- The good Franchisor needs to be aware of this inevitable development and address it by suggesting to the Franchisees to establish working groups comprised of Franchisees. These groups will work with the Franchisor on specific issues such as marketing, technology, training, etc. The close interaction with the Franchisor will generate a lot of new ideas, allow the Franchisor to understand the frustrations at the sharp end but also give the Franchisees the feeling (and assurance) that their views are wanted and respected.
- The good Franchisor is also likely to suggest, when the body of Franchisees is large enough, that the Franchisees may wish to consider establishing a process for the selection of Franchisee representatives to meet with the Franchisor in regular intervals to discuss the progress of the Franchise. These meetings should not be a stage for individual Franchisees to vent their frustration with the Franchisor.
- The relationship between Franchisor and Franchisee is not one of pure independence on either side. The Franchise concept is dependent on the interdependence of the parties.
- Therefore, the following quotes and the spirit in which they are made are not appropriate:
"Rubin (1978) and Hamilton (1984) believe that Franchisees are not independent and are merely company managers 'dressed up' and are not entrepreneurs. Felstead (1992:259) considers Franchisees to be part of the 'controlled self-employed'. Others also express doubts as to the independence of Franchisees".
'The industry should abandon the myth that a Franchise holder is an independent small business man.'(Burck 1970:152)"⁹

⁹ Forward et al.

1.2.12 Franchisor Team –

- The Franchisor company itself is for most part a fairly small company.
"The majority of Franchisees, and most Franchisors, are SME's".¹⁰
This means that Franchisors have limited resources with which to create and later maintain a winning system.
- One of the main issues which will determine the success of a Franchise System over time is the quality of the team at HQ.
- The selection, training and motivation of the Franchisor team is essential for its ability to harvest all the knowledge which exists within the system, as well as, garner all the up to date appropriate/applicable techniques from the market place.
- The individual Franchisee and the body of Franchisees have an important role to play in the evolution of the team at HQ. Although at times the individual Franchisee enjoys venting his/her frustrations at the individual HQ employee and/or the people at HQ office, it is important to remember that these are, for the most part, employees and therefore entitled to receive consideration, as they are trying to do their best in a very difficult and challenging environment.

1.2.13 Franchisee Selection –

- It goes without saying that the quality of Franchisees will determine the success of the Franchise.
- The question to be asked is how does a Franchisor determine what type of Franchisees are needed to deliver the specific business proposition which is being offered? The answer has to be: By study and estimate but also by trial and error.
- The successful Franchisor will continue to invest revenue in evaluating how the changing needs of the market are to be reflected in the properties of the ideal Franchisee. But, also to learn where such potential Franchisees are to be found and whether the business proposition on offer is likely to be attractive to them.
- The good Franchisor will resist recruiting Franchisees which although willing, even keen to join the system are clearly unable to deliver the characteristics and/or experience which the system requires.
- Franchisee selection is extremely important to the ongoing success of the System and the good Franchisor will not delegate the recruitment process to outside consultants nor to inadequately prepared internal staff.

¹⁰ Stanworth, Report to DTI, March 1994

- In good Franchise Systems the Franchisor requires that potential Franchisees visit existing Franchisees. This offers a benefit to the potential Franchisee by acquainting him/her with the business and allows him/her to ask difficult questions. The on-site visit is also an opportunity for the Franchisor to obtain feedback from the host Franchisee i.e. to what extent the existing Franchisee was impressed or otherwise by the visitor.

1.2.14 Franchisees having financial difficulties –

- Unfortunately, despite all the good intentions, even in the best run Franchise System there are failing Franchisees.
- The reason could be the failure, by what seemed at the interview and training stages to be a good prospective Franchisee, to make the transition from being an employee (with a salary cheque coming in at the end of the month) to a small business owner running a business.
- The reason could also be a Franchisee who despite being able to demonstrate a modest success earlier is discovered to be unable to dedicate to the business the level of energy and commitment necessary to achieve and maintain success.
- The good Franchisor will have in place the expertise and support team to help guide the faltering Franchisee and try to nurse him to good health.
- Experiencing financial problems is a difficult time for both Franchisee and Franchisor. This is likely to strain relations because for the most part the Franchisor will be trying to help the Franchisee by encouraging the him to implement more of the marketing and business building tools available to him.

1.2.15 Exit –

- Franchisees do not seem to plan ahead. Often, a Franchisee will join a Franchise System without actually working out an overall 'benefits plan'.
- Both Franchisee and Franchisor would benefit greatly by establishing a 'benefit plan' to define the income, savings and exit time for the individual Franchisee – ideally, this should be discussed and agreed upon within the first six months of the granting of the licence.
- The Franchise Relationship would be more focused with the Franchisee working to specific targets and probably, more successful.
- The good Franchisor invests in the generation of Franchise enquiries for both new and re-sales. The Franchisor can facilitate the process of 'exit' by providing prospective purchasers for the business.

- A possible point of ‘power struggle’ with the Franchisor can arise at the departure time. The Franchisee may be able to identify a prospective purchaser willing to pay the asking price whilst the Franchisor may refuse to accept the individual because in the view of the Franchisor he/she do not possess the personal and/or financial properties required by the Franchise for new Franchisees at this time.
- The Franchisor’s absolute right to veto prospective Franchisees, including at the departure point, is paramount to the continuing health and integrity of the Franchise. Departing Franchisees would have very little concern beyond getting the maximum amount of cash for the business. This absolute right may be disputed if the Franchisor also has the right to force the Franchisee to sell the unit to him at a price below that offered by a genuine third party buyer (pre-emption right).

1.3 What are the opportunities –

1.3.1 Providing employment opportunities –

“The growth of Franchising in the UK, and Europe generally, appears set to continue on a long term basis, despite setbacks

.....A number of factors appear likely to promote franchising growth. First is the general worldwide decline of traditional manufacturing industry and its replacement by service-sector activities. Franchising is especially well suited to exploit service and people-intensive economic activities, particularly where they require a large number of geographically dispersed outlets serving local markets.

A second factor is the growth in overall popularity of self-employment. Most governments in the Western world are looking towards self-employment and small business as an important source of future jobs.”¹¹

1.3.2 Quality jobs –

- The Franchisor provides a proven business opportunity and a tested operating system.
- The Franchisor provides training.
- The Franchisor provides a recognised and respected brand
- The Franchisor continues to develop and update the business opportunity and the operating system to meet the changing needs of the market.
- The Franchisor provides technical support.

¹¹ Stanworth, DTI 1994

- The Franchisor has the interest to see each individual Franchisee succeed in their designated market place and will invest effort to help the Franchisee gain success.

1.3.3 A Brave New World –

- Franchising has the potential to provide an extremely productive and very cost effective distribution method for the dissemination of quite complex services, especially throughout the developing world where effective and consistent distribution of anything is a rarity.
- Micro-Banking –
 - *"... I lay in bed feeling ashamed of myself that I was part of a society which could not provide \$27 to forty-two able-bodied, hardworking skilled persons to make a living for themselves.
....I decided to approach the local bank manager and request that his bank lend to the poor. What was required was an institution that would lend to those who had nothing. It seemed so simple, so straight forward.
.... We have come a long way; from \$27 lent to forty-two people in 1976 to \$ 2.3 billion lent to 2.3 million families by 1998. A Micro-Credit summit was held in 1997 to launch a worldwide campaign to reach 100 million families by the year 2005."*¹²
 - The candidate is proposing a new program for an MBA in Enterprise Economy which would lead to the setting up of a Micro-Banking Franchise. The Franchise, with the support of the World Bank, the UN, etc. will aim to expand to all underdeveloped/developing nations.
 - Experience in Bangladesh, where the Grameen Bank (the first Micro-Bank) was established, proves that not only are borrowers (often women) able to improve the immediate standard of living of their families, but, in the long term birth rates drop whilst the level of education and care offered to the smaller number of children produced rises significantly.
 - Micro-Banking has the potential to re-vitalise small communities and reach into the most inaccessible of places. The amounts being lent are often tiny but able to change the life potential of the beneficiaries, the community and the country in which they operate.
 - *"When the Indonesian Government launched its \$490m initial public offering of Bank Rakyat Indonesia last month, investor demand was so strong the Government received orders for almost 15 times the number of shares available....."*

¹² Yunus 1998

The reason for this confidence is simple – BRI is one of the world's largest 'micro-lenders', doing much of its business with farms and small business owners. These small borrowers, few of whom defaulted even during the 1997/1998 Asian financial crisis, are seen as offering a sense of security not available elsewhere in the banking sector.....Everyone also knows the yield on micro-finance is quite high but the risk is quite low.

....It is difficult (to grow fast) because of the (small) amounts that we lend....but we think there are many more people we can lend to".¹³

- Birth Control Networks –
 - World population is projected to double within the next 50 – 70 years
 - The six billion additional individuals are bound to be born in the underdeveloped and developing world i.e. increasing their population in total to some eleven billion people
 - The candidate is proposing that Franchising could be used to establish a vast network of birth control points: These simple 'structures' could reach into the most remote village at little cost
 - It is suggested that the people who undertake the Micro-Banking Franchise should be encouraged to support the establishment of the birth control network, too.
- Seed and agriculture information Franchise –
 - The world population is about to double (50 – 70 years, as stated above)
 - The population of the underdeveloped/developing nations could reach as high as eleven billion people
 - What can be done to avert famine and world strife on a catastrophic scale?
 - It is expected that the UN, the World Bank and the governments of the Western world will be able to overcome current objections to the production of genetically modified crops – whilst at the same time embedding effective ways to monitor undesired spontaneous wholesale cross-fertilisation.
 - It is expected that commercial organisations will be prepared to invest heavily in the development of higher yield and pest resistant crops only if those plants will

¹³ Financial Times 2003

produce infertile seeds i.e. new seeds will have to be purchased each year for sowing.

- It is suggested that at present, too, the subsistence farmer finds it very difficult to carry his stock of seeds intact into the next sowing season. Vermin, birds, thieves, floods, fire, pests and hunger all conspire to rob him of his meagre reserves of seeds.
- Franchising is in an ideal position to roll out rapidly a global network geared to the dissemination and distribution of seeds and technical information.
- The Franchisor will be able to choose the right seeds for the region, negotiate with various suppliers, and obtain funding from the World Bank, UN, governments and others interested in averting a global catastrophe.
- Considering that one planted seed probably produces 50 to 100 marketable seeds, this must be the cheapest way for the Western world to alleviate hunger and eventually poverty in the developing world (50 to 100 fold return!).
- On 21/02/2004 Matthew Parris published the following article in The Times:

"Whoever, wrote Jonathan Swift, 'could make two ears of corn or two blades of grass grow where only one grew before, would deserve better of mankind than the whole race of politicians put together'. I have just met such a man.

....Dr. Borlaug has been a key transitional figure in his field. He has spent his life in the cusp between traditional farming and biotechnology. He has concluded that only by the responsible application of science to agriculture can we save the world from famine.His Indian experiment succeeded beyond the wildest hopes. Wheat production quadrupled in a decade; by today that increase is ten fold. The regions' population has more than doubled, yet, its people are better fed than they have been in more than half a century. For Dr. Borlaug the Noble Peace Prize followed in 1970.

....Most projections see a gradual increase until a point after the middle of this century when the world population may stabilise at about double its present level.

.....starvation is not an effective form of birth control. In fact, the more secure and well fed people become, the fewer children they have. The harsh but seemingly plausible argument that producing more food is pointless because extra food will be met by more hungry mouths to feed is wrong.

.....better crop yields do not add to the pressure on rainforests or on wild or marginal land; they reduce it.

....He persuaded me that the challenge, though immense, is finite; to feed another six billion people in the half century ahead. He believes this is possible. His dream, he told me, is that bio-technology will find a way to impart to other cereals the famous hardness of the rice family. This may be achievable by genetic modification”.

2 The ‘Product’ Aims and Objectives –

2.1 Is additional ‘Franchising Knowledge’ contribution wanted –

- 2.1.1 In a fast moving world economic environment every economic sector stands to benefit from continuous examination and exploration of its constituent parts.
- 2.1.2 Franchising is a complex method of doing business. The basic relationship of interdependence between Franchisor and Franchisee i.e. neither of them is able to achieve and maintain ongoing success without the other, is by itself a challenge. Even an average size Franchise System is likely to have in excess of twenty to thirty independent minded Franchisees. To succeed the Franchisor must find a way to harness the energy and ambition of each individual Franchisee under a homogeneous structure and operating system. This is not an easy task. For Franchising to succeed it would be extremely useful if the various constituent parts would acquire the habit to reflect upon the issues and develop the practice to exchange and share with each other ideas for improvement.

2.1.3 Quotes culled from Franchise literature -

- i. *“Franchising has been increasingly utilised as a method of business expansion over the last thirty years. Despite this expansion there has been little in-depth research into Franchising, resulting in a low level of understanding”.*¹⁴
- ii. *“The objective has been to construct an up to date comprehensive review and thus attempt to fill a gap which up until now has existed”.*¹⁵
- iii. *“There exists very little British published in-depth research on Franchising”.*¹⁶
- iv. *“There is also a suggestion that researches have disproportionately dwelt upon issues which have limited relevance to the operation of Franchised systems in practice”.*¹⁷

¹⁴ Stanworth 1984,1991

¹⁵ Forward et al. 1993

¹⁶ Hough 1986

¹⁷ Forward et al. 1993

2.2 The 'Central Theme' for the Project –

- i. We live in turbulent and fast changing times. We have come, reluctantly, to 'accept' the daily hardships experienced by a large proportion of the five billion people living in the developing world. The question being asked is: Is it inevitable that such a vast number of people are consigned to live in misery? In addition, the one billion people living in the Western world do not easily understand the impact of the winds of change which are blowing around them, either. Much is talked about the alienation and unemployment in society. A research paper was quoted to the candidate purporting that by the year 2020 some 20% of the US population will be suffering from clinical depression!

An article in The Times on 19/02/2004 states:

"Mark Latton, the labour leader tipped by many to become the next Prime Minister, said that the latest generation of Australian blokes was bewildered, uneducated and unhappy. Growing numbers were dropping out of school, over dosing on drugs and committing suicide. As blue-collar muscle jobs have declined, their identity and relationships have become blurred and confused..... We need to give our boys a new centre to their lives, one grounded in community, support and mentoring..."

- ii. The candidate's central theme throughout the project and the Submission is designed to suggest and provide support to the idea that Franchising could help a wide swath of the business community and society tackle a large number of grave issues. Franchising is a local player par excellence because it provides local support and value to local people. At the same time Franchising, by definition, is a system for the distribution of products and services which has been developed to facilitate the duplication of activity and therefore becomes a global player able to share expertise, knowledge and economies of scale. The candidate's opinion and theme is that Franchising is a marvellous method for dissemination, distribution and duplication of hope; hope for opportunity and livelihood.
- iii. The following is a partial list of the subjects which the candidate had set out to tackle in the Submission, in one way or another (at times fleetingly because of time and space constraints) –

2.2.1 Issues to do with SME's and their constant struggle to stay one step ahead of the competitive and changing tastes and needs of their customer base. The candidate holds the opinion that it is the value of the Franchising concept and its operating system which converts the individual SME into a Franchisee *"the majority of franchisees, and most franchisors, are SME's"*.¹⁸

¹⁸ Stanworth 1994

- 2.2.2 The one theme which holds the whole Submission together is Franchising. It is deemed unnecessary for the candidate to re-iterate once again his conviction of the current and future value of Franchising.
- 2.2.3 Employment as we know it is changing. In fact, the terms and expectations for employment have changed drastically over the past few years already; from a lifetime employment with one employer to a life of ever changing careers. Franchising offers another career opportunity or career option. However, Franchising also offers a path for individuals to pick up business and management skills later in life. At a time when many other options and doors will seem to have closed to them. Permanently.
- 2.2.4 Opportunity is what everyone wants. Opportunity is something everyone deserves to have. Without the belief that opportunity beckons most enterprise will be extinguished. Franchising offers opportunity to many of those who have been denied it elsewhere. Franchising offers a second or third opportunity when the individual may feel the 'cold shoulder' everywhere else. Franchising can be said to be ushering in a period of greater 'democracy of opportunity'.
- 2.2.5 In the years to come democratic governments will be unable to meet all the expectations of their citizens. (Despotic regimes 'mostly' do not recognise that their population is entitled to have any expectations). The difference between what is wished for, even expected, and what can be had will be greater than at present because technological progress will make new and better services possible. Governments will need to plough vast amounts into education, health services, roads, safety, etc. There will never be enough money for every desired value. Franchising could help the voluntary sector play a more important role in society because Franchising can pick up a good idea and fairly quickly duplicate it manifold – to the benefit of all.
- 2.3 Aims –
- 2.3.1 Encourage greater professionalism amongst the people who practise Franchising and/or who offer services to the Franchise Community. A greater degree of self-awareness and the recognition of the benefits both to self and others, from this process, is likely to encourage more active, open discussion and the active exchange of views; leading invariably to greater insight and professionalism.
- “It is in the very act of trying to help others that we are likely to be allowed a sense of their inner selves – of their thoughts, values and feelings and that process unlocks for us many insights into our own selves. This opening of others to self and self to others is a pre-requisite for reciprocal behaviour and therefore the foundation stone of our own growth and development. Opportunities for such behaviour are constantly with us if we choose to take them.”¹⁹*

¹⁹ Addlam & Plumridge 1995 Critten

2.3.2 The submission and its constituent parts are aimed at a diverse group of potential readers. The idea was to call their attention to the issues, highlight opportunities, explain challenges and offer new idea which could be explored further in the years to come. The first step to the construction of a boat is the insight that a log of wood floats on water. The candidate's aim was to capture the imagination of the readers on different levels i.e. for some to better understand how Franchising operates, for others how Franchising could be improved and for others to open a small window through which they can realise that a far greater Franchise opportunity is twinkling brightly for us in the future.

2.4 Objectives –

2.4.1 Better Franchising Practice –

Through the detail incorporated in the Submission the objective was to impact the practice of Franchising by Franchisor, Franchisee and advisors.

2.4.2 More Franchise Systems –

Through the scope and range of the Submission it is hoped more Franchise Systems would be established. Franchising has a great deal to offer to the Business community. A young business short of cash but strong on concept can roll out a national, even international network by capitalising on the funding and ambition of Franchisees. An established business can choose to expand part (or all) of its business by way of Franchising thereby reducing its overall risk exposure whilst not necessarily reducing its overall benefit opportunity.

2.4.3 Innovative Franchise Systems –

Through the scope and range of the Submission it is hoped that the international community will realise that some of the more entrenched challenges which are facing the global village could be tackled successfully through the setting up of a new type of a hybrid system of Franchising. Issues such as poverty, employment, birth control, agriculture have been discussed in the Submission. Hopefully, there will be a successful follow up at some time.

3. On what basis has the material been compiled and justified –

3.1 Available knowledge sources and their characteristics –
(See Appendix 7.2 Bibliography Listing)

3.1.1 Franchising related literature written by the legal profession –

- i. Every single Franchisee/Franchisor Relationship is (or should be) underpinned by a legal agreement i.e. the licence which the Franchisor is granting the individual Franchisee (in exchange for a benefit) to operate the System in a specific location/market i.e. the Franchise Agreement.
- ii. Much of the anguish/friction which takes place in Franchising has to do with the lack of understanding and/or follow up/implementation by the Franchisor and/or Franchisee subsequent to the 'entering' into the relationship as expressed in the Franchise Agreement.
- iii. The publications written and published by solicitors are intended to explain the various clauses and the impact which they are bound to have on the respective responsibilities of the parties.

3.1.2 Franchising related literature written and published by Franchise Consultants –

Franchise Consultants are in the business of selling their services to the various parties who have, from time to time, an interest or are in need of support and guidance in Franchising matters e.g.:

- i. Advising a company on how it could convert itself to a Franchise System
- ii. Advising a company on how it could set up a subsidiary activity which uses the Franchising Concept way to expand
- iii. Advising a company on how it could expand its Franchising activities overseas
- iv. Advising a company how it could maximise the process of choosing a Master Licence or a Master Licensee and managing the relationship
- v. Advising a Franchisor experiencing fast growth
- vi. Advising a Franchisor experiencing slow growth
- vii. Advising a Franchisor how to improve the Franchise recruitment process
- viii. Advising a Franchisor how to manage a time of strife i.e. (confrontation with Franchisees) within the Franchise, etc.
- ix. Franchise Consultants also offer their services to Franchisees:
 - How to select an appropriate Franchise opportunity
 - Advising a group of Franchisees in their time of differences with their Franchisor, etc.
 -

3.1.3 Franchising related literature published by the International Franchise Association (IFA) –

The IFA is the US Trade Association of Franchisors (although it now also invites individual Franchisees to join). The IFA publishes (as an example):

- i. The annual directory of Franchisors called Franchise Opportunities Guide
- ii. A whole range of publications:
 - : Help in buying a Franchise
 - : Help in running a Franchise
 - : How to franchise a business
 - : 'How to' manual for Franchisors regarding the establishment of Advisory Councils with Franchisees
 - : Legal information
 - : Reference material

3.1.4 Franchising related literature published by the US Department of Commerce aimed at promoting the establishment of ethical Franchising in the USA and the provision of jobs

3.1.5 Franchising related literature published by the Association of Small Business Development Centres (USA)

3.1.6 Franchising related literature published by the British Franchise Association (BFA)

3.1.7 Franchising related literature which is based on the 'How to' book format

3.1.8 Franchising related literature written and published by practising Franchisors: Comments:

- i. A comprehensive book published by a Franchisor whilst actively involved in the business can only be a rare event because of the time constraints which the practising Franchisor experiences.
- ii. The practising Franchisor would be tempted to use the publication as a promotional tool for the expansion and support of the brand.

3.1.9 Franchising related literature written by or sponsored or published with the financial support of banks interested in the development of the Franchising concept –

- The NatWest – BFA Annual Franchising Survey
- The NatWest support to the International Franchising Research Centre at the University of Westminster
- The Lloyds Bank support to the International Franchising Research Centre at the University of Westminster
- Various publications published under the banner and with the financial support of various UK clearing banks

3.1.10 Academic publications researching and exploring issues of Franchising and the SME sector -

3.2 The target audience(s) and their characteristics –

3.2.1 Their characteristics –

3.2.1.1 Franchisees –

- i. There are tens of thousands of Franchisees in the UK alone
- ii. The common denominators amongst Franchisees are:
 - They are mostly very small businesses (exceptions are large corporate franchisees, Franchisees of the Hilton, Holiday Inn hotels, etc.)
 - Franchisees operate under a licence from a Franchisor
 - They are likely to have had relatively little personal experience in running a business before becoming Franchisees
 - They are not homogenous in their education, ethnic origins, temperament, work experience or ambition levels
 - They are not all that interested in what is happening in other Franchise systems
 - They are interested in their own well being and on the whole are hard workers

3.2.1.2 Franchisors –

- i. There are a few hundred Franchise companies in the UK at present. Their numbers are estimated at 695 business format Franchise Systems overall. The British Franchise Association has some 150 Franchisors as members. There are some 32,000 franchised units in total.
- ii. Many are quite small in terms of number of Franchisees, system sales and profitability. The British Franchise Association estimates that the average Franchisor has 46 Franchisees, generating £14 million in system sales per annum and possibly not earning more than £1.5 million gross income p.a. (10%) to cover all operating and marketing costs. Note: These average figures mask a great diversity of activity and income. For example, 25% of all Franchisees report an annual turnover below £50,000. Also, 47% of Franchisors have less than 20 franchised units and only 20% have more than 51 units.
- iii. The fact that most Franchisors are SMEs themselves and quite vulnerable to the same management, commercial and capitalisation issues as all SMEs and Franchisees highlights the importance of adequate knowledge sharing and the development of greater professionalism within the ranks of the people running Franchise companies.

3.2.1.3 SMEs –

- i. Most of the SMEs fall into the small or tiny category i.e. the one-man-band outlet, rather than qualifying as medium size organisation.
- ii. Much of his time the SME owner is struggling to survive.
- iii. The SME owner often does not himself have the skills necessary to run the business nor access to professional advice which is costly (especially when of good quality.)
- iv. SMEs cannot fulfil their destiny or rather deliver the ambitions of their owners in terms of profit and the expectations of government (in terms of job creation) unless they share available knowledge and learn from the experience of others.

3.2.1.4 Business and Franchise Advisors –

- i. Accountants and solicitors offer advice and support to the Franchising community.
- ii. The quality of the advice on offer varies greatly. Much of it is useless unless dispensed by a quality advisor who has taken the time to learn the specific needs of the business. Most SMEs cannot afford the cost and cannot even justify it.
- iii. Business advice support being offered via various schemes funded by government are said to be inadequate.
- iv. There are a number of solicitors specialising in Franchise issues. Some of them are good.
- v. There are a number of Franchise advisors offering support to both Franchisees and Franchisors. A small number of them offer decent advice.
- vi. There are equally a number of accountancy practices which have acquired experience in Franchise accounting over the years. Their input in terms of the Systems of the Franchisor could be relevant.

3.2.1.5 Academics –

- i. The number of academics in the UK who have dedicated themselves to the study of Franchising is very small.
- ii. The number of academics who study and teach Small Business issues is more substantial.
- iii. The number of publications on Franchising published in the UK by UK academics is limited.
- iv. UK academics have observed and commented on the paucity of UK Franchising publications.

3.2.1.6 Government –

- i. Government and government agencies proclaim great interest in the welfare of the SME sector.
- ii. Government expects the SME sector and self-employment to be the engine for job creation rather than the large company sector.
- iii. Government is aware of the ‘skill’ gap and is quite active in the encouragement of the public to engage in lifelong learning and therefore in constant skill acquisition and skills updating.

3.2.2 Aims and Objectives –

- 3.2.2.1 To inform the community listed above
- 3.2.2.2 To share knowledge and experience with them
- 3.2.2.3 To encourage the various parties to reflect upon the input
- 3.2.2.4 To invite other professionals to do likewise and accelerate the process of knowledge and expertise sharing. We need to create a stronger community of Franchising professionals.
- 3.2.2.5 Help Franchisees understand better the elements of the Franchise Relationship
- 3.2.2.6 Help Franchisees understand the issues faced by the Franchisor.
- 3.2.2.7 Encourage Franchisors to improve their operating system, the quality and the level of support they are providing their Franchisees with whilst at the same time running the business on commercial lines to assure that they survive, even make a good return on their investment and effort.
- 3.2.2.8 Provide a new vision to the Franchising community and government regarding the fact that the Franchising Concept can be adapted to many other areas and thereby provide solutions to major areas of societal concerns.

3.3 What are the hoped for benefits and potential impact –

- 3.3.1 The Submission is hoping to encourage the development of better Franchising, more Franchising, and creative Franchising.
- 3.3.2 Better Franchising will reduce the number of failures amongst Franchisees and Franchisors. It will reduce the friction and the power struggles which are taking place. It will make more money for everyone (including government) and it will give better value to the end user.
- 3.3.3 More Franchising will help create more jobs, offer more training and education, and provide more skills updating and upgrading. More Franchising will mean extending activity into the more remote regions, offer more services, more choice, better value and more competition. More Franchising will mean more Franchise practitioners with more expertise. This will help create a virtuous cycle of benefits.

3.3.4 More creative Franchising means the establishment of new Franchise Systems in sectors which Franchising has not tackled before. It means expanding into the voluntary sector, overseas (and possibly in the UK) in areas such as Micro-Banking, agriculture and many other fields of endeavour we are yet to identify. Creative Franchising may be limited only by the need to be ethical and to offer a sustainable business model. The sky is its limit.

3.4 How will the benefits be achieved –

The paths open to the candidate to reach/impact the members of the community of interest and effect a change are as follows:

3.4.1 Articles which could be published in Franchise magazines, SME publications and others. These articles would be based on the Submission.

3.4.2 A book for Franchisees –

There is clearly a potential to produce and publish a book aimed specifically at Franchisees. It should be possible to work together with people already associated with Franchising to facilitate the process.

- i. The British Franchise Association – the BFA could very well encourage its members (Franchise companies) to either purchase the book and give it (free/at reduced cost) to their Franchisees or encourage their Franchisees to buy it directly. The BFA could do this by way of its ongoing newsletters and/or during its various meetings with members of the Association.
- ii. The various Franchise magazines – these magazines could very well decide to add the book to their list of publications and sell it to would-be Franchisees/existing Franchisees/ Franchisors.
- iii. The BFA could possibly decide to buy copies of the book and send one copy to each one of its members as an encouragement to take the opportunity to do something with it with their Franchisees.
- iv. Academics, too, could be reached via the BFA.
- v. The academics who are already interested in Franchising are likely to learn about its existence in the normal way. Other academics interested in SMEs have to be approached by the publisher, possibly by way of a direct mail shot and/or advertisements and editorials in the relevant publications.

3.4.3 Lectures –

- i. The candidate had given over one hundred lectures in past years on Franchising issues at universities, at Franchise exhibitions, at seminars, etc. The BFA will definitely provide opportunities to do so under its auspices.

3.4.4 Publications for Franchisors, Government, Academics and others –

- i. It is feasible for the candidate to prepare a focused presentation for Franchisors and another for government.
- ii. Either of these publications could be distributed in a digital format. The marketing could be done directly. It is even an idea to consider sending it for evaluation without upfront payment.

3.4.5 The Voluntary Sector –

- i. The candidate has already started to discuss the potential of Franchising within this sector and once the project is completed good use will be made of the Submission to help interested parties within the voluntary sector get a better understanding of the issues and potential.

3.5 The Methodology –

3.5.1 What is ‘special’ about franchising knowledge contributed by the candidate –

The Candidate’s love affair with Franchising started in 1960 on the bustling streets of New York City. The realisation that Franchising had such a great deal to offer the individual and the business community was like a religious revelation. As is often the case, the initial thunder-bolt happened in a coffee bar/restaurant, just across from Columbia University, called Chuck-full-O’Nuts (the spelling may not be totally accurate). The young student enjoyed the fare, the fair prices, the convenience and the idea that an attractive ‘business opportunity’ was there to be had as a Franchisee and an even bigger one was waiting for the entrepreneur as a Franchisor.

This was the first step. One small step on a long and arduous road of learning and eventually practice. Throughout his journey on the Franchising track the candidate ‘devoured’ whatever documentation and literature which time, place and resources made available and possible. At different stages and at various junctions the candidate attempted to convert theory into practice but to no avail. Until the year of our Lord 1978. At last the stars and the constellations were all in alignment and the birth of Kall Kwik was announced. The birth of Kall Kwik was a new beginning for the candidate. At once, a great ambition which had come true, and a ‘nightmare’ just beginning to unfold. The birth pangs of a new venture have to be experienced to be understood. The pain of nursing a new Franchise on its early journey could be compared to a chicken giving birth to a turkey chick. Throughout his twenty one years at the helm of Kall Kwik the candidate had experienced a continuing journey of challenges, learning, joy, pain, success and failure. Throughout this journey the candidate had done his utmost to understand the issues of Franchising; to come to grips with the underlying currents rather than sail ‘innocently’ on the surface of seemingly tranquil waters. Throughout

these long years the candidate had discussed Franchising issues ad nauseum with Franchisees, Franchisors, Professional Advisors, Business People, Academics etc. etc. Much of this exchange of views found its way into the continuing stream of writing and lecturing which the candidate had undertaken throughout his Franchising years.

When the time came to prepare for the D.Prof programme it was clear to the candidate (and to the U.K. Franchising community) that the 'hands-on' and 'mind-on' accumulated experience of the candidate must be the basis for the work. However, a great deal of previously written material which included internal Kall Kwik documents, thoughts, lectures, published articles, seminar handouts, etc. was available and very useful.

The candidate set out to write a book to the benefit of Franchisees to be titled '100 Steps to Becoming a Successful Franchisee' and the Submission itself was titled: 'System Leasing for Productive Franchise Relationships'. As can clearly be deduced from both titles the emphasis of the work was directed towards the Franchisees. This choice would not have come as a surprise to any of the U.K. Franchising Practitioners. The reason is the general knowledge that the candidate was recognised for constantly exploring the issues to do with the Franchise Relationship/Franchisor-Franchisee Relationship but also because all Practicing Franchisors are pre-occupied with this issue.

The D. Prof. journey for the candidate, from start to 'finish', has taken five years. During this journey the candidate has dug deep into his massive inner accumulation of Franchising experience, observation, practice and feelings. The process of sifting through both physical and mental stores of knowledge took a long time. During this process the candidate experienced a change of direction and emphasis. From a practicing Franchisor totally committed to the needs of the immediate community of Franchising interest he evolved into a 'social scientist' who is equipped with a great deal of Franchising experience and expertise. The Franchising Practitioner wrapped himself in a new mantle containing a wider social responsibility. As a result of the distance of time and perception the emphasis of the contents evolved from examining only the needs of the Franchisee into a new structure which shares with the reader insights into conventional Franchising and its challenges but also encourages the reader to see Franchising in the light of a far greater role for it in the Global Economy of the 21st Century. Arriving at this changed point of departure, as well as arrival, obliged the candidate to examine all his personal sources, analyse the contents and make decision(s): what subject matter is appropriate, for which audience and how best to create a totality which adds a great deal of value to the individual constituent parts.

3.5.1.1 Leading edge experience and knowledge –

- i. *“Most practionners do not share Moshe’s academic interests or ambitions, nor his passionate desire to further the fortunes of Franchising and those preparing to use it.”*
Brian Smart, Director General, British Franchisc Association, 1999
- ii. *“He has a profound understanding of the industry and what prospective franchisees need to succeed in, what are often, challenging and competitive markets.”*
Lynn Lister, Managing Editor, Business Franchise Magazine, 1999
- iii. *“.... Uniquely equips him to write one of the most authoritative books on the subject certainly a book to look forward to.”*
Dr. Dennis Chaplin, Group Editor, FDS Publishing

3.5.1.2 Hands-On Practionner –

- i. *“Moshe has some 21 years experience of Franchising and his knowledge and expertise give him a formidable reputation in the Franchise industry.”*
Nigel Toplis, Joint Managing Director, Kall Kwik, 1999
- ii. *“His own 21 years of experience in setting up and master-minding the high-profile Kall Kwik organisation in the UK.”*
Dr. Dennis Chaplin, Group Editor, FDS Publishing, 1999
- iii. *“Moshe has had some 22 years experience of Franchising, having built Kall Kwik in the UK from nothing to its present position where it is regarded as one of the leading franchise companies in the country.”*
Dr. Martin Mendelssohn, Solicitor, 1999
- iv. *“He is the ideal person to write such a book for three reasons – he has had 20 years hands-on experience of establishing a highly successful franchise network....”*
R.I. Riding, Publisher, Franchisc World Magazine, 1999

3.5.1.3 Creativity: ‘Thinking-outside-the-box’ –

- i. Creativity in connection with the proposed Submission –
 - The candidate had taken the decision to delve into his own lifelong experience of Franchising and business, especially the twenty one years of hands-on practical experience at Kall Kwik, in order to distil original material which could add-value to all franchising and SME practionners i.e. from Franchisees and other SME owners to Franchisors, advisors government, banks and academics.
 - The candidate used the four plus years of distance from active Franchising to reflect and review his own experience. In the light of the review and reflection exercise, the candidate came to the conclusion that the idea/theme for the

Submission needed to be expanded to incorporate not only ideas for best practice for 'domestic' Franchising but go beyond this remit and propose a portfolio of opportunities. Taking the broader approach Franchising could contribute toward a global transformation, especially in meeting specialised needs of the developing world.

- The candidate reviewed and edited material which was written earlier; some of which was published (mostly in Franchise magazines).
 - The candidate has written a substantial proportion of the Submission specifically for the purpose of the D.Prof project.
 - From the start the focus of the Submission was to capitalise on original intellectual capital assembled/ created by the candidate over the years and based on a deep understanding (and caring) of Franchising and SME issues. This specialised understanding had itself evolved from a process where internalised instinctive insight and continuous accumulation of data are converted into knowledge and practical output for the benefit of a community of practitioners.
 - The candidate believes that, in Franchising, issues of intellectual capital and the wide distribution of this capital is much more relevant to the current situation than the provision of statistics i.e. empirical studies.
 - An important part of the Submission are the creative ideas of the candidate as regards to the greater role which enhanced Franchising could play in meeting the huge challenges which our global society is to face in the near future.
 - In fact, it is proposed, there are two creative parts to the Submission:
 - How to enhance the efficiency and success rates of Franchising as it is practiced in the Western world at present
 - How to use the greater potential of Franchising to deal with challenges which technology, the changing nature of competition and the spiralling expectations of the individual are ushering unto the global community
- ii. Creativity in connection with the promotion of the Franchising Concept and its properties (including the challenges) –

- The candidate has given some one hundred public lectures including in universities (City, Durham, London Business School, The Judge Institute, Middlesex), in the British Franchise Association seminars, Franchise exhibition seminars, bank seminars, foreign Franchise seminars, etc.
- The candidate has published some one hundred various items over the years. They were all intended to expand the knowledge base of Franchising. For the most part, these pieces were published in Franchise publications i.e. intended to be read by practitioners in the Franchise community.
- The candidate has written a booklet titled All About Franchising which was distributed to many thousands of prospective Franchisees. These booklets were handed out freely at Franchise exhibitions and sent as part of the initial information pack which prospective franchisees approaching Kall Kwik would be sent.

iii. Creativity during the long years at Kall Kwik –

A few examples:

- Considering that the candidate launched Kall Kwik UK in late 1978 from scratch, and at a point in time when the Franchising concept here was either unknown, unfamiliar or in disrepute (it was being compared with the pyramiding format), it is clear that merely to survive creativity, as well as, persistence were the order of the day.
- Kall Kwik was started with under £100,000 funding. The candidate is fond of saying that one man and a dog started the business, but, that the dog left soon thereafter because of poor prospects.
- To obtain shop leases was even in 1978 and 1979 a nightmare. There were issues of adequate covenants (offered by the lessee to the landlord) and the payment of 'premiums'. How does a new, underfunded company struggle through...?
- One way to obtain leases which required the payments of substantial premiums was to identify a charitable trust (which paid no tax on its own income) and do a sale/leaseback of the acquired lease to them. A few such transactions even yielded surplus cash without which the business would probably have failed in its inception years.
- Kall Kwik was a business concept which fused high street retail locations with on-site manufacturing (printing/design).

It was important to convey from day one to prospective clients (mainly the SME community) that Kall Kwik was a new, better equipped and more creative supplier – able to meet existing needs with flair but also offer new services hitherto unavailable to the SME segment. Kall Kwik was able to develop in-house a unique hi-tec shopfitting and shop-layout system which was leading edge in its styling for its time and very efficient and cost effective for its Franchisees. In fact, several features of the shopfitting system were copied by various retailers.

- At some point in time Kall Kwik ordered from Colombia in south America a pop-up multi-page brochure to describe its business which was a world first. Hitherto, the Colombian company (a world leader in hand assembly work) specialised in publishing pop-up children's book. A year later Kall Kwik ordered a 14-months-7-tableaux pop-up calendar from the same publisher. Both of these items were received with great enthusiasm by the many Kall Kwik clients who received them as corporate promotion (many thousands).
- Between 1994 and 1996 Kall Kwik proposed, funded and actively managed for The Prince's Trust the "Celebrities Painting Masks Fundraising Campaign". More than five hundred world-renowned celebrities including politicians painted or decorated clay masks for the charity. Exhibitions were held in Edinburgh, Glasgow, Leeds, Birmingham and London. More than 50,000 beautiful catalogues were printed and sold. The masks were sold at auction with all the proceeds going to charity.

3.5.1.4 Definitions: Two relevant definitions contributed by the candidate to enhance Franchise understanding and improve operational productivity –

- i. The Enterpriser definition (see Appendix 7.5) –
 - *'What is a Franchisee' is a question which consumes a great deal of energy. Opinions vary from "... The industry should abandon the myth that a franchise holder is an independent small businessman. (Burck 1970)" "... or should it be seen as little more than a branch outlet of some larger enterprise."*²⁰ In fact, the word 'entrepreneur' is used on occasion as in "*Rubin (1978) and Hamilton (1984) believe that franchisees are not independent and are merely company managers 'dressed up' and are not entrepreneurs*". "*Felstead (1992) considers franchisees to be part of the 'controlled self-employed'*"²¹

²⁰ Stanworth 1984

²¹ Forward et al. 1993

- The discussions and explorations by academics and others are of great importance to the larger picture of Franchising because it is essential that both Franchisor and Franchisee have a clear knowledge of and are in agreement about their respective roles and responsibilities. In the case of the Franchisee, for example, if the Franchisee was to come to the conclusion that he/she is in fact only a glorified employee the individual is likely to fail to manage the demands of the business in a successful way.
- Whilst in order to succeed the Franchisee has to have and be able to demonstrate certain qualities which are necessary to run a business, at the same time, the Franchisee cannot be a true entrepreneur because a true entrepreneur is less likely to be willing to follow diligently the uniform system prescribed and enforced by the Franchisor.
- For the purpose of offering assistance to both Franchisor and Franchisee (and possibly the academic community) the candidate has written many years ago the aforementioned definition of the Enterpriser

ii. System Leasing (see Appendix 7.6) –

- Most definitions of Franchising concentrate on the process of the granting of a licence or rights by the Franchisor to the Franchisee to operate or trade in a certain location/area/address using its brand name in exchange for prescribed payments.
- Whilst the above elements of the Franchise definition are necessary and correct, as a practising Franchisor the candidate came to the conclusion (many years ago), that, as far as, both Franchisees and Franchisors are concerned, the definition was not sufficiently broad to impress upon either of them the respective responsibilities which each party had assumed through the granting and acceptance of the licence.
- A crucial part of the success of Franchising is the quality of the System which the Franchisor had developed and is constantly updating and its effective implementation by the Franchisees.
- The 'System Leasing' definition was designed to impress upon the Franchisor community its responsibility to invest in the ongoing development of the 'Business Opportunity' and the 'Operating System'. When 'leasing out' a system in exchange for ongoing fees the Franchisor clearly undertakes a commitment to keep improving the System to be able to 'justify' the ongoing payments. Equally, when 'leasing' a System from the Franchisor the Franchisee undertakes to use the System as prescribed, otherwise the System could be taken from him and 'leased' to another.
- The term most often used by Franchisees and Franchisors alike refers to the 'sale' of a Franchise when actually what is

meant is that ‘certain rights have been granted’. However, the perception by the Franchisee that he/she has ‘bought’ the Franchise seems to affect the resolve of the Franchisee to ‘follow the System’ and weakens the hand of the Franchisor in motivating the Franchisee to maximise the potential benefits in the market place.

- The ‘System Leasing’ definition was written by the candidate in an attempt to help all concerned adjust their perceptions regarding their true relationship i.e. one where each party has to take responsibility for their share of the bargain.

3.5.1.5 Experience Highlights –

- i. Life Experience (see Appendix 7.3)
 - Columbia University (N.Y.)
 - London School of Economics (London)
 - Finance for Industry, Economist, (Tel Aviv)
 - Defence Ministry, Senior Economist (Tel Aviv)
 - Maritimcor, Finance Manager (Zurich)
 - International Business Advisor
 - Kall Kwik, Founder
 - The Prince’s Trust (charitable project)
 - Non-Violent Communication
 - British Franchise Association (Council)
 - CBI (London Council)
 - Middlesex University (Business School, University Board of Governors)
- ii. Industry Applicable Experience (see Appendix 7.4)
 - Kall Kwik Founder, Managing Director, Chairman
 - 21 years at the helm
 - Two hundred franchised business centres (1500 employees)
 - Franchise HQ with seventy employees
 - £ 75 million per annum in system sales (Europe’s largest in sector)
 - Master Licensee of Kwik Kopy Corporation, Texas
 - Franchisor Of The Year (Kall Kwik)
 - Franchisee Of The Year (Kall Kwik Franchisee)
 - Companion of the British Franchise Association (personal award)
- iii. Level 5 Accreditation –

The accreditation of ‘prior and work based learning’ to Level 5 was achieved on the basis of the candidate’s extensive:

 - Hands-on experience

- The candidate prior to Kall Kwik had a career packed with responsibility, as well as, opportunity to acquire knowledge and experience by sharing these years in the company of respected professional colleagues.
 - The Kall Kwik experience was an exciting journey of twenty one years of continuous challenge. Establishing, developing and managing a two hundred strong Franchise of high street locations servicing the needs of the business community (up to 100,000 businesses) for design, printing and communication material is not an easy task. The candidate was exposed to everything business can conjure up except the personal experience of total failure. Although, over the years as a Franchisor the candidate experienced the issue (and pain) of failure of Franchisees' businesses. These twenty one years allowed the candidate to grow and develop, to reflect and review.
 - Through the British Franchise Association work (14 years on its Council) and the CBI work (6 years on its London Regional Council) the candidate had the opportunity to learn from the experience of colleagues, many of whom could be termed Captains of Industry. But, also employed the work done and the experience gained on these councils to review his own perceptions and activities.
- The writing
- The candidate was committed throughout his twenty one years in Kall Kwik to writing down on paper for the benefit of his colleagues at Franchise HQ and the Franchisees and their people, thoughts, ideas, suggestions, guidelines, arguments, reflections, vision, etc. This was done in order to help the individual and the community of Kall Kwik (HQ employees, Franchisees, staff of Franchisees, their families and the Kall Kwik client) to understand what the vision of Kall Kwik was, what were the important issues, what was needed in order to meet the targets, what was needed to deliver to the market place to exceed customer expectations. The amount of writing which the candidate had done 'internally' over the years was substantial.
 - Throughout the Kall Kwik years the candidate was heavily engaged in writing for publication. At some point in time the candidate was publishing material in two Franchise magazines simultaneously. All in all, some one hundred items written by the candidate have been published, most but not all, were published in the Franchising media.

- The 'All About Franchising' booklet which was written by the candidate had been distributed widely. In all, possibly over 20,000 copies of the booklet have been distributed.
- The candidate had written the text and organised the recording of an audio tape (in the 1980's) which was sponsored by NatWest Bank and distributed by the British Franchise Association. The tape was distributed in large numbers over many years (the initial run itself was 10,000 copies) providing first hand accessible information to prospective Franchisees.

- The Lectures

- The candidate presented own material and lectured to Kall Kwik HQ employees on many occasions.
- In regular meetings with Kall Kwik Franchisees in which the candidate has taken part, his responsibility was to talk not only about the vision of the Franchise but also to discuss and share practical day to day management and Franchising ideas.
- Over twenty one years the candidate gave talks/lectures in each of the annual conferences which Kall Kwik held in the UK and in many of the Kwik Kopy annual conferences which took place in the USA.
- Over the years the candidate spoke/lectured in a large number of seminars held by the British Franchise Association to the benefit of prospective Franchisees attending Franchise opportunity exhibitions. In addition, the candidate spoke/lectured on occasion in other British Franchise Association events, e.g. seminars for Franchisors, the annual conference, regional meetings, etc.
- On many occasions the candidate presented talks about Franchising aspects on behalf of a number of UK clearing banks (Lloyds, Royal Bank of Scotland, NatWest), as well as, for other organisations, e.g. 3i, etc.
- Over the years the candidate gave talks and lectures to students in a number of universities, e.g. London Business School (repeatedly), City University (repeatedly), Durham University, Judge Institute in Cambridge, Middlesex University.
- All told the candidate estimates that on more than one hundred occasions he was given the opportunity to share in public his views and experience of Franchising practice and study.

- The Final Project: The Submission –

The Submission has the dual purpose of:

- Providing new added-value knowledge in a format which can be easily accessible by a defined community of interest. The knowledge contained therein has to be of high standard and high quality and in demand by the target audience.
- The Submission is further intended as a confirmation that the candidate in fact possesses the ‘set of generic capabilities specified in the Level 5 descriptors’.

The Submission contains:

- Original work which examines the workings of Franchising from various points of view i.e. Franchisor, Franchisee and the global community. Much of this material will find its way to a book intended for Franchisees and Franchisors.
- Some reflections for Franchisors regarding international expansion and the issues associated with them.
- Innovative ideas and creative suggestions i.e. how Franchising could engage in the fight against poverty and overpopulation.

- Large Scale Projects –

The final project is also intended to help the candidate enhance his own skills and expertise in conceiving and managing large scale projects. The emphasis is on large projects with the potential to contribute to the well being of an organisation and/or a community of professionals. Such a project requires the individual to organise the project, harness the data, harness personal resources, engage in time management and produce a focused, relevant document which addresses the issues with clarity and quality. The Submission has to be clear and able to transfer the larger message, as well as the detail to those it is intended for.

It is the candidate’s own opinion that the Submission:

Empowering The Individual Within a Productive Franchise Relationship is capable of making a valuable contribution to the store of practical Franchise knowledge, as well as, make quite a few people think and ponder regarding the greater potential of Franchising to contribute to the well being of the Global Economy in the Twenty First century.

3.5.2 Preunderstanding –

- The Submission is a product of a journey of a lifetime. The candidate has set out to capture and distil his very own experience within the field of Franchising. Forty years of study and twenty one years of intensive hands-on practical experience at the helm of Kall Kwik are the basis for the Submission.
- The candidate wanted to produce the Submission in order to share its contents with his peers i.e. the people who make up the Franchising community.
- The candidate believed that his first-hand and hands-on experience in setting up, developing and managing a substantial UK Franchise System is well worth gathering and conserving for the benefit of others. To add substance to a collection of recollections the candidate added consideration and reflection, as well as, aspects of creativity and vision.
- The UK Franchising community acknowledged their expectations and enthusiasm for the proposed Submission in 1999 with their letters of endorsement sent to the National Centre for Work Based Learning Partnerships.
- The UK Franchising community acknowledged their perception of the high value which they attribute to work provided by successful hands-on practionners by writing the following words: "Moshe's twenty one years experience as practionner in franchising is possibly unique in the UK. His intention to add to the organised body of knowledge on franchising with work intended to educate prospective members of the franchise community about its realities is most welcome". Brian Smart, Director General, BFA.
- Considering that the Submission constitutes a significant part of the D.Prof. Degree program, the following paragraphs are aimed to explore this question:
 - What is the view of academic wisdom as reflected in literature regarding the validity of research which is based on the capture of first-hand experience and reflection undertaken by an experienced and literate practionner?

The candidate has chosen the publication 'Qualitative Methods in Management Research' by Evert Gummesson (2000) as the source material for the exploration of the stated query.

- The traditional methods of research –
 - The methods of research which are traditionally recommended by the academic establishment and propagated in the business school environment “enhance *desk research* of existing written material together with *field studies* in which *survey techniques* are deployed to acquire *empirical data*. The surveys use *questionnaires* and *interviews* and *statistical, quantitative processing* of data. Preferably, the researcher should start with a set of hypothesis which are tested by means of the empirical data.”¹
 - The question to be asked even at this early juncture is whether the traditional empirical research approach referred to above is the ideal method to capture knowledge, conventions and practices within an organisation. “It is my belief that these methods can be used only to *complement* the analysis of processes within a company. If each method is used on its own, processes of decision making, implementation, and change will tend to be examined in a far too fragmented and mechanistic manner, which will scarcely inform the reader and indeed may only lead to misunderstandings.”²
- The process of extracting or mining information within an organisation with the intention to classify the data, understand the true meaning of the various strands which have been picked up, analyse it and distil the bulk into a manageable quantity and then convert this raw data into a written report requires a range of skills. The following three functions seem to be relevant to the work done by the candidate in pursuing the data for the Submission:
 - i. Analyst –
“Intellectual work; performed by one or a small group of individuals; duration could range from very brief to several years; occasional visits to the company; tends to make frequent visits to other groups e.g. Centres and suppliers; considerable deskwork involved; written report essential”.³
 - ii. Catalyst –
“Intellectual work but with considerable emphasis on human relationships and emotional states; based on experience and judgement; discussions with one or a few individuals; may comprise anything from a few hours to a long term assignment carried out at the company”.⁴

¹ Gummeson 2000: 35

² Ibid: 35

³ Ibid: 39

⁴ Ibid: 39

- iii. Change Agent –
“Assignments may comprise all or only some of the above roles; in addition, provision of expert recommendations that in practice may be interpreted as mandatory; strongly action oriented; assumes active participation for a period of several months up to a couple of years; regular periods of residence at the company.”⁵
- The Franchising industry and its practices is the subject of the Submission. The success or failure of Franchising in general and of every Franchise System in particular depends on the ability of the two to harness knowledge and expertise, as well as, cultivate its brand awareness, in order to duplicate success. Success means to roll out as large a network of Franchisees as market conditions warrant. As the Franchise System is based on a multi-tier ownership structure its success and financial stability clearly depends on “the value of customers, employees, internal procedures, and the potential to improve and innovate; these are increasingly referred to as *intellectual capital*.”⁶
 - Each Franchise System serves the needs of the customer and the market place one step removed i.e. through the interaction of the individual Franchisee with the individual customer. The fact that the Franchisee is the one closest to the customer – (the source of life for the Franchise) – requires that a great deal of thought and skill are invested in identifying the overall capability which the Franchisee needs to bring to the party. The individual Franchisee will be expected to follow the System since Franchising activities “are designed in detail around well-tested success formulas that must be strictly adhered to by each outlet; no drifting allowed. In this way, it is possible to open restaurants and stores in new locations at a fast pace; growth is based on the multiplication of the exact same concept over and over again.”⁷
 - The candidate has chosen to assemble knowledge and reflection culled from personal first-hand experience rather than through the search for and examination of empirical material as is practiced in the traditional research method. This was done on the basis that there exists a school of thought which claims “It is generally recognised in quality management that those who are closest to a problem are also those who are best suited to identify the problem and the right solutions.”⁸
It is further argued that “this Preunderstanding refers to things such as people’s knowledge, insights, and experience before they engage in a research program or a consulting assignment; understanding refers to their improved insights emerging during the program or assignment”.⁹
The literature goes on to state that “Sir David Nicholson .. claims that management consultants cannot understand the problems of strategic and

⁵ Ibid: 39

⁶ Ibid: 42

⁷ Ibid: 41 - 42

⁸ Ibid: 41

⁹ Ibid: 57

structural change unless they have practical experience of running a company".¹⁰

- An important contribution in support of an ongoing structured program for the capture of experience and practice in general but in Franchising in particular, is the following quote: "It has become increasingly apparent to me that the central role played by experience in the development of understanding and insight is a frequently recurring theme among philosophers, authors and others."¹¹
- The question of whether the personal experience of the individual is relevant or sufficient for the exploration of the issues under consideration is explored as follows: "The term *preunderstanding* is used in a wider sense than just knowledge; preunderstanding also implies a certain *attribute* and a *commitment* on the part of the researchers/consultants. It involves their *personal experience* as an essential element in the process of collecting and analysing information. Moreover, researchers/consultants must demonstrate *theoretical sensitivity* and be able to change their paradigm – their basic worldview – if reality requires them to do so. The researcher/consultant would thus be able to generate new concepts, new models and new theory."¹²
- Researchers, including those associated with Franchising, need to be aware that opinions can be entrenched. The individual Franchisee quite often is new to business ownership. The business which they operate could be quite small and demand a great deal of hard work to make it successful. Therefore, once a Franchisee is in the business a year or two it becomes a challenging task to try and introduce new concepts which are in conflict with their established understanding. The literature explains "the term *blocked preunderstanding* refers to knowledge and approaches that are selective because they are closely associated with a specific paradigm and the theories, models and procedures that emanate from this paradigm. Knowledge may be detailed and comprehensive but still function as a prejudice: One continues to dig in the same hole; one becomes an *expert ad absurdum*. In trying to force reality into received theory, reality becomes distorted rather than explained."¹³
- One of the aspects which the candidate wished to examine in this review of literature was to identify whether there is a recognised distinction between experience gained directly i.e. at first-hand by the individual and experience obtained otherwise. The following statement "The traditional researcher's preunderstanding is primarily formed... on the basis of the experience of others, which is communicated through books, lectures, and so forth; this is knowledge by description to use Russell's terminology. To emphasise clearly the difference between knowledge based on the

¹⁰ Ibid: 59

¹¹ Ibid: 60

¹² Ibid: 60

¹³ Ibid: 62

individual's own experiences and knowledge based on the experience of others, I will use the terms preunderstanding – and understanding – *firsthand* and *second-hand*"¹⁴. It is quite clear that the twenty one years experience gained by the candidate from first-hand practice of Franchising with Kall Kwik is definitively a recognised and acceptable academic format.

- Whilst the preunderstanding option recognises, even encourages, the prior knowledge based research format, there is of course the traditional school of thought which can be described as diametrically opposed to it. "Rubenowitz characterises positivism in the following terms: The predominant research tradition in the social and behavioural sciences has been of a quantitative, empirical nature. This research tradition can be considered to be still prevalent. It is based on the statistical analysis of data collected by means of descriptive and comparative studies and experiments. This approach is usually termed *positivistic*. It assumes that only knowledge obtained by means of measurement and objective identification can be considered to possess truth. The view that this logical empiricism provides the only true basis for explanation and general theory has occasionally come into conflict with a *hermeneutic*, interpretative approach".¹⁵
- Although the positivistic approach is a well established research method as mentioned "the hermeneutic paradigm leads us to quite the opposite conclusions. According to this view, it is not possible to follow an interpretative approach at a distance. It requires a personal commitment on behalf of the researcher such that he invests his personality and experience into the field of research; a personal commitment is an actual requirement for understanding ... hence personal experience of the area of study is considered to be a scientific merit. Indeed hermeneutics views it as a requirement rather than just a merit."¹⁶
- To summarise: Following this investigation of literature regarding the question whether basing the Submission on first-hand personal experience is not only acceptable to the community of Franchise practionners but also recognised by academia, the answer could be said to be summed up as follows:
"According to this quotation, the positivistic researcher aims at being a spectator, whereas the hermeneutic researcher endeavours to be part of the action."¹⁷ And finally,
"Both positivism and hermeneutics place demands on creativity and the ability to see reality in a new light. Analytical requirements however, receive a higher priority in positivistic research than creativity and novel approaches."¹⁸

¹⁴ Ibid: 67

¹⁵ Ibid: 177

¹⁶ Ibid: 179

¹⁷ Ibid: 179

¹⁸ Ibid: 179

3.5.3 The Role of Literature –

- Within the numerous pages of the Submission the candidate addresses a myriad of Franchising and business issues and takes the reader on a wide-ranging exploration of ideas and suggestions containing a new, bolder vision for the future. Many of the issues discussed have appeared and re-appeared in different guises. This is the nature of an in-depth exploration of a complex subject matter.
- Franchising is a business concept. Franchising is a method for the distribution of products and services. It is not a distinct economic sector itself. As such, the Franchising Concept is employed, on a non-exclusive basis, by many economic sectors and industries. The range of industries employing the Franchising Concept is almost as diverse as the economy itself: from luxury hotels to budget hotels, from car distribution to car rentals, from printing to drug dispensing, from tax computation to drain clearing and from flower shops to department stores and so forth.

Although the range of applications in Franchising is imaginative, the basic operational and conceptual issues which determine the success or failure of the individual Franchise Company – from the point of view of Franchising practice – are quite similar, often identical. It should be kept in mind at all times that the Franchising issues which the Franchise Company has to deal with are quite distinct from the sector specific issues which determine the eventual success in the market place, i.e. the Holiday Inn hotel chain is operating in the hospitality industry although it is employing the Franchise Concept to reduce its financial risk and accelerate the build up of its geographical coverage worldwide. A Franchise company or rather a company employing the Franchise concept is in fact operating in two sectors, i.e. the core one is the industry itself (say hotels), and the other is in the Franchising 'industry'; which in the UK in 2003 is estimated to 'transact' just under £10 billion per annum. It is estimated that just under seven hundred UK companies are employing Franchising to speed up and facilitate their development plans. (Source: BFA)

In order to support the fledgling UK Franchising companies, to facilitate the acquisition of knowledge and skills and to encourage the sharing of practical experience, the industry started to attract publishing entrepreneurs as early as 1978. Franchise World Magazine (published by Bob Riding) was the first on the scene and persisted in its attempt not only to 'warehouse' interesting Franchise related news stories but also to offer a platform to practitioners to share their views and hands-on experience. Eventually, two other Franchise magazines were launched to tap the potential of the market. These Franchise magazines (Franchise World, Business Franchising and The Franchise Magazine) provide the space and the distribution to Franchisors, Franchisees, academics, advisors, solicitors, accountants, banks etc. to share their views and make recommendations regarding Best Practice Franchising experience. There are also a number of UK based academics who have shown continuing interest in Franchising, e.g. Professor David Kirby, Professor John

Stanworth (who also heads the International Franchise Research Centre at Westminster University), Dr. Anna Watson, Dr. A. Felstead, Christina Fulop with John Forward, etc. Amongst the professional advisors, Dr. Martin Mendelsohn (solicitor) has been extraordinarily committed and prolific in terms of the long series of Franchising text books which he has published and the vast number of lectures and seminars which he either organised and/or lectured in.

- Franchising is a process which captures our commercial and social imagination because of its innate ability to duplicate success whilst employing a concept which harnesses the energy and capital of a group of disparate Franchisees (not a homogenous group) with delegated authority, as far as customer interface is concerned, representing a national (or international) brand. It stands to reason that in Franchising those issues which have to do with the harnessing and the management of knowledge and people are the key to success. At the same time, because Franchising aspires to the establishment of truly substantial distribution networks (some are vast), often spread over great geographical areas, another aspect to examine would be; to what extent the organisational and operational structures used by Franchising companies could benefit from observation and input gleaned from the experience of the non-franchised economy and as reflected in literature relating to knowledge as an asset to the organisation.

3.5.3.1 Franchising, Knowledge and Intellectual Capital –

- A Franchising company starts with an individual entrepreneur who at some point in time decides that the launch of a new business idea or the expansion of an existing business could benefit from the employment of the Franchising Concept. Ideally, a Franchising offer would not be made available to the public at large until such time that the entrepreneur had invested the time and money required to 'perfect' the business proposition and captured the essence of the activities. At such time it can be said that "the intangible assets – the talents of its people, the efficacy of its management systems, the character of its relationships to its customers –that together are its intellectual capital"¹⁹ are the underpinning values of the business.
The attention paid to the capture of the experience gained is so important and "intellectual capital has become so vital that it is fair to say that an organisation that is not managing knowledge is not paying attention to business".²⁰
- It is not clear whether the vast majority of Franchisors and Franchisees are actually aware that "the management of intellectual capital is like a newly discovered, still-uncharted ocean, and few executives understand its dimensions or how to navigate it. They may know a bit about codified intellectual assets like patents and copyrights. They may have an inkling of the value of others, such as

¹⁹ Stewart 2000: 55

²⁰ Ibid: 56

brand equity. They may intuit that training and experience gained on the learning curve belong somehow in their asset base. But talent is intellectual capital too.”²¹

- The lack of awareness in Franchising of the different issues of intellectual capital – well beyond the terms contained in the Franchising Agreement itself – is not unique to the Franchising industry. “Harvard Business School’s Michael Porter found that ‘capital is more likely to be dedicated to physical assets than to intangible assets whose returns are more difficult to measure. For most companies, investments in plant and equipment with easy-to-measure cash flows are more confidently valued and justified than investments in R & D, training, or other forms where the returns are more difficult to quantify.”²²
The goal of creating a true awareness and understanding of the issues of intellectual capital in Franchising has a tangible value “Charles Handy estimates that the intellectual assets of a corporation are usually worth three or four times tangible book value.”²³
- Franchise companies have in reality only two assets: Intellectual Capital, i.e. the intangible intellectual capital which is contained in one way or another within the people and semi-permanent intellectual capital which is reflected through the System which they operate and the physical network of Franchisees (operating under licence). “By definition the intangible is hard to grasp. It must be rigorously defined in ways that make it palpable and useful, that create understanding and have a bias toward action. To find the hidden gold, one must have a map.”²⁴
How do we define intellectual capital? Hugh MacDonald, futurologist at ICL, says: “Knowledge that exists in an organization that can be used to create differential advantage – in other words, the sum of everything everybody in a company knows that gives it a competitive edge”²⁵ whilst the Klein and Prusak definition is: “Intellectual material that has been formalized, captured and leveraged to produce a higher-valued asset.”²⁶
A simple way to describe intellectual capital is “packaged useful knowledge.”²⁷
- It is important to accept and acknowledge that when it comes to the accumulation of expertise “Everyone can contribute. Every single person.”²⁸ The understanding that each individual has a role to play is an integral aspect of Franchising where each Franchisee is entrusted with the responsibility to meet the needs of the market place. It is the Franchisee who builds the relationship with the client base. “*Customer capital* is the value of an organization’s relationships with the people with whom it does business. ...the depth (penetration) , width (coverage) and attachment (loyalty) of our franchise” and “Edvinsson adds, ‘It’s the likelihood that our customers will keep doing business with us.’”²⁹

²¹ Ibid: 57

²² Ibid: 61 - 62

²³ Ibid: 63

²⁴ Ibid: 64

²⁵ Ibid: 67

²⁶ Ibid: 67

²⁷ Ibid: 67

²⁸ Ibid: 68

²⁹ Ibid: 77

Each business is substantially dependent on a community of stakeholders not only on clients, therefore, when talking about intellectual capital the definition “could be broadened to include the value of relationships with suppliers – call it *relationship capital*? Whether the relationship is upstream or downstream, its economics and dynamics are the same.”³⁰ It is quite logical that “The better the relationship, the more likely the buyer is to share its plans and expertise with the seller – that is, the more likely a company can learn with and from its customers and its suppliers. Shared knowledge is the ultimate form of customer capital.”³¹

- The interesting thing to understand and explore is that “Lots of intellectual capital is unexpressed, tacit knowledge – such as, for example, the background expertise and relationships a salesman builds up over many years covering a territory. How does one find that?”³² The Franchisor would need to discover/develop the practice to identify and capture even the tacit, unexpressed capital and turn it into explicit knowledge.
- In order to be able to maintain the viability of the system over time it will be necessary to be able to discover “How can we turn corporate smarts into a knowledge management process and system, an intellectual capital asset that provides the data and information people need to become knowledgeable, but is not cumbersome and will not overwhelm them with trivia?” “This approach starts at first with the identification of the types of problems you would like to solve within the organizations (or opportunities you would like to focus on).”³³
- When examining the issue of intellectual capital from close quarters we discover that “intellectual capital takes just two forms. First, there’s the *semipermanent body of knowledge*, the expertise that grows up around a task, a person or an organization. These might be communications or leadership skills, understanding the biochemistry of viruses, knowing what customers are really paying for when they come to your company and how to price it (its value proposition ...), familiarity with an organizations processes, values and culture (‘the way we do things around here’). The second kind of knowledge assets are *tools that augment the body of knowledge*, either by bringing in facts, data, information – call them what you will – or by delivering expertise and augmentation to others who need them when they need them, that is, leveraging them. Phone numbers are not intellectual capital; phone books are.”³⁴

Therefore, one of the steps that the Franchisor needs to undertake is to help the team understand that “... people know more than they realize – that over the years they develop huge repertoires of skills, information, and ways of working that they have internalised to the point of obliviousness. Identify them, name them, package them, and these hitherto tacit capabilities can be the basis of a new career.”³⁵ In fact, “... organisations and groups ... brim with tacit knowledge:

³⁰ Ibid: 77

³¹ Ibid: 78

³² Ibid: 69

³³ Ibid: 69 - 70

³⁴ Ibid: 71

³⁵ Ibid: 72

Intuitions, rules of thumb, mind-sets, unwritten rules of turf and territory, unconscious values.”³⁶ “Much of it exists in the uncodified talents of experts.”³⁷

- The process being described is crucial because “ Out of these beliefs and assumptions, the organization adopts values, principles, and ‘ways of doing things’ which in turn determine how it makes decisions and shapes the collective behaviour of its members.”³⁸
- All organisations, especially Franchise Systems, are firstly composed of individuals and “... human capital is ‘the capabilities of the individuals required to provide solutions to customers’”.³⁹ It must be remembered that “the distinction between human and *structural capital* is fundamental to managing knowledge. *Human capital* matters because it is the source of innovation and renewal...”⁴⁰
- It is necessary for the Franchise company to be able to combine the capability of the individual and the ability of the organisation to assemble, accumulate and process the intellectual capital and convert it to successful working practices. For example “...the people who work at McDonald’s have an average IQ, if that, but it’s a very intelligent organization, able to provide the same quality cross-culturally. They modularized and standardized their knowledge.”⁴¹ However, it is not always readily accepted that “Like human capital, *structural capital* exists only in the context of a point of view, a strategy, a destination, a purpose. Thus it is the ‘organizational capabilities of the organization to meet market requirements’”.⁴²
In order to be able to consistently produce the excellent system elements which the Franchisees need to capitalise on the human capital being generated through the day-to-day activities, it is necessary to recognise that “Sharing and transporting knowledge – leveraging it – requires structural intellectual assets, such as information systems, laboratories, competitive and market intelligence, knowledge of market channels, and management focus, which turn individual know-how into the property of a group.”⁴³
- In Franchising the system delegates the direct interface and relationship building with the customer to the Franchisee who is in fact an ‘independent’ businessperson operating under a licence granted by the Franchisor. In order to equip the Franchisee with the intellectual capital required to develop the unit and build a successful business, the good Franchisor will be engaged in an ongoing program of training. The investment which Kall Kwik committed to training was impressive. Therefore, it is interesting to note some observations made by Stewart regarding issues of training:

³⁶ Ibid: 72

³⁷ Ibid: 72

³⁸ Ibid: 72

³⁹ Ibid: 76

⁴⁰ Ibid: 76

⁴¹ Ibid: 76

⁴² Ibid: 76

⁴³ Ibid: 76

Firstly, “By defining human capital in terms of what people must know to serve customers and benefit themselves.”⁴⁴

Secondly, “.... developed what they call competency models. These describe the abilities that customers expect from the people they deal with: familiarity with its productline, selling skills....”⁴⁵

- Like much else in life those elements in Franchising which make the concept so attractive to would be Franchisors, as it did to the candidate, also create the challenges which give Franchising a slight aura of fragility.

Despite references in literature to observations that “the industry should abandon the myth that a franchise holder is an independent small business (Burck, 1970)” and “Felstead (1992) considers franchisees to be part of the ‘controlled self-employed’”⁴⁶, the fact is that in all Franchise Systems the Franchisor delegates substantially the direct interaction with the end-user (the customer) and the active delivery of the service/product on offer to the Franchisee. Although it could be argued that a branch manager in a chain, too, has the same delegated authority; one difference with Franchising is that the Franchisee cannot be fired – if not performing – with a straight forward two weeks notice.

The interaction with the customer is the culmination of the sum total of the activity in the Franchise: Exceeding customer expectations, being able to command profitable prices and enjoying good levels of repeat business is what everyone is working for. In order to be able to achieve a high level of brand awareness in the market, good penetration and good market share, a great deal of excellent quality activity has to take place – daily. The input which the candidate is seeking from ‘literature’ would be to gain further insights into what can be done to improve the process of knowledge building and its successful transfer to the units and its implementation by the Franchisees.

- An important point to try and keep in mind is the reality that both the Franchise company and the Franchisee’s unit are small businesses. Not many Franchisors can qualify as a medium-size company, definitely not in their early days. Yet in the literature it is proposed that “Information seeking in the pursuit of new knowledge needs to be simultaneously broad and narrow. Generally, the process begins by scanning broadly and sharing information extensively, connecting with many sources inside and outside the organization. The initial objectives are to assess the state of development in an area, to understand the range of possibilities, and to identify new opportunities or market needs. At some stage, when the problem is sufficiently defined and the areas where critical information is lacking are apparent, information gathering becomes more narrowly focused and even more vigorous.”⁴⁷ Whilst the advice is spot on, the reality in the hectic Franchise environment is that both Franchisor and Franchisee will always protest that the claims on their time are such that investing – systematically - in better systems

⁴⁴ Ibid: 93

⁴⁵ Ibid: 94

⁴⁶ Forward et al. 1993

⁴⁷ Choo: 144

and improvements for the future cannot compete with the need to tackle the 'fires' of the moment.

- The Franchisor Company, too, has to be 'lean' in order to be able to stay afloat. After all, the Franchisor receives as its income a small percentage of the Franchisee's turnover. In the majority of the Franchise companies, once the network reaches a certain critical mass, the cash flow from the on-going fees is the main source of income for the Franchisor. This means that the Franchisor cannot simply recruit more people to lighten the load of others. Each individual needs to be very effective. Naturally, in such an environment the ability of the Franchisor to acquire the skills and expertise needed to build the knowing organisation becomes absolutely critical. "If recent history is an indication, one-third of the companies currently on the *Fortune* 500 list will disappear over the next five years. Yet there are organizations that have literally lived to be a hundred, continuing to thrive decade after decade. These organizations have survived not just because of their size or good luck. Many of them have demonstrated a capacity to adapt swiftly to changing conditions in the environment, to innovate continuously, and to take decisive actions that move their organization toward its goals."⁴⁸ The attrition rate in business, especially at SME level, is enormous.
- What are the initial steps which an organisation needs to take in order to effectively direct its team and resources towards the desired transformation? "Research in organization theory suggests that organizations create and use information in three strategic arenas. First, organizations *interpret* information about the environment in order to construct meaning about what is happening to the organization and what the organization is doing. Second, they *create* new knowledge by converting and combining the expertise and know-how of their members in order to learn and innovate. Finally, they *process and analyse* information in order to select and commit to appropriate courses of action."⁴⁹ Therefore, it can be said that at the heart of the required processes are " ... *sense making, knowledge creating and decision making*" ... which are "integrated in a cascade of information seeking and use that moves the organization from a broad interpretation of ambiguous environmental changes, through the replenishment of new knowledge for innovation and relearning, to converge upon the selection and implementation of a particular strategy or course of action."⁵⁰ It is important to keep in mind that the distinct organisational processes described "are in fact highly interconnected processes; and that by analysing how the three activities energize each other, a holistic view of organizational information use emerges."⁵¹
- A serious challenge for any manager, but especially the ever harassed Franchisee and Franchise HQ employee, is to make the time because " organizations must make interpretations. Managers literally must wade into the swarm of events that constitute and surround the organization and actively to impose some order on them... Interpretation is the process of translating these events, of developing

⁴⁸ Ibid: XI

⁴⁹ Ibid: XII

⁵⁰ Ibid: XII

⁵¹ Ibid: 3

models for understanding, of bringing out meaning, and of assembling conceptual schemes. (Weick and Daft 1983: 74)”⁵²

Every operating Franchise system has a treasure trove of tacit information residing within the team which includes the Franchisee and his employees (where applicable) and yet most Franchise Systems are inadequately equipped to harness it. “Knowledge creation is achieved through a recognition of the synergistic relationship between tacit and explicit knowledge in the organization, and through the design of social processes that create new knowledge by converting tacit knowledge into explicit knowledge.”⁵³

- Much of the knowledge which an individual possesses is defined as tacit knowledge. This is “personal knowledge that is hard to formalize or communicate to others. It consists of subjective know-how, insights, and intuitions that come to a person from having been immersed in activity for an extended period of time.”⁵⁴

In the specific case of Kall Kwik, for example, the tacit knowledge, which the Franchisee is constantly accumulating, encompasses every function in the Centre including understanding each client’s (and there are hundreds) individual approach to relationship building, i.e. to what extent he/she will be willing to trust the supplier (the Franchisee) to provide suggestions and input based on a more detailed knowledge of the client’s own business and own customer base. At Franchise HQ a critical factor is the ability to interface and interact meaningfully with a prospective Franchisee, i.e. to achieve a greater understanding of the needs and capabilities of the individual whilst at the same time ‘selling’ the business opportunity to him/her. Any new insight, any new understanding of customer needs (both end user and prospective Franchisee) is vital to the continuing prosperity of the business. But, in order for the team to be able to operate it must have access to information when it is already in its explicit format. “Explicit knowledge is formal knowledge that is easy to transmit between individuals and groups. It is frequently coded in the form of mathematical formulas, rules, specifications, explicit knowledge does not appear spontaneously, but must be nurtured and cultivated from the seeds of tacit knowledge. Organizations need to become skilled at converting personal, tacit knowledge into explicit knowledge that can push innovation and new-product development.”⁵⁵

The process which the individual and the organisation need to undertake in order to harness the know-how is laborious and may require a culture change in the UK as far as small companies are concerned. “There are four models of knowledge conversion: from tacit knowledge to tacit knowledge through a process of socialization, from tacit knowledge to explicit knowledge through externalisation, from explicit knowledge to explicit knowledge through combination, and from explicit knowledge to tacit knowledge through internalization.”⁵⁶

Seeking information starts with the “ individual selecting messages to act upon from the larger body of information found during”⁵⁷ the process of trawling for

⁵² Ibid: 8

⁵³ Ibid: 8

⁵⁴ Ibid: 8

⁵⁵ Ibid: 8

⁵⁶ Ibid: 8

⁵⁷ Ibid: 51

data. This process “may be thought of as comprising three stages – the recognition of information needs, which leads to information seeking, and then information use. In practice, these stages tend to fold into each other ...”⁵⁸

“Information seeking and use is part of a larger human and social activity through which information becomes useful to an individual or group.”⁵⁹

- The aspect, raised earlier, of conflicting calls on the limited attention span of the individual and the business operation is referred to as follows: “Sensing, or noticing potentially important messages in the environment, is problematic because the organization is simultaneously immersed in multiple streams of interaction with many different parts of the environment, and because almost every part of the environment is interconnected with other parts in complex and unpredictable ways.” “... scanning can be made more effective if it is systematic, thorough, participatory, and integrative. The core process of scanning is information management – casting a wide information net by involving as many participants as possible to act as sensors, and systematically processing and integrating the gathered information into a usable knowledge base.”⁶⁰
- In summary, a commercial enterprise which has chosen to capitalise on the Franchising Concept for its method of distribution is operating in effect in two sectors, i.e. Franchising and the specific economic sector it aims to serve. The impact of this choice is that the enterprise needs to be aware of the opportunity to create and capture knowledge and expertise in both fields of endeavour. For the Franchise community to succeed it is essential for it to understand and implement the three stages of the development of intellectual capital as proposed by Stewart:
 - i. Human Capital – which refers to the development of the knowledge and capabilities of the individual, as well as, the team in order to be able to provide solutions.
 - ii. Structural Capital – the way which the organisation structures its ability to manage knowledge which is the source of innovation and renewal which ultimately allows it to meet the needs of the market.
 - iii. Customer Capital/Relationship Capital – the means by which the organisation learns from its network of stakeholders including customers and suppliers.

To be able to capitalise on intellectual capital which resides in the business or the potential intellectual capital which may develop in the future the enterprise must be able to establish the relevant structures, systems and tools, i.e. those structural assets which will be used to convert the know-how held by the individual into a property which can be exploited by the whole team or at least by additional members.

The process of capturing the potential expertise is divided by Choo into three parts:

⁵⁸ Ibid: 51

⁵⁹ Ibid: 63

⁶⁰ Ibid: 67

- i. Interpretation – the information collected is interpreted in order to understand the meaning of what is actively happening to and within the organisation at the particular point in time and in relationship to the market place.
- ii. New Knowledge – the additional knowledge is created through a process of converting and combining the expertise and know-how of the individual members of the team to share knowledge and innovate.
- iii. Analysis – the accumulated information is analysed to select and focus on the most appropriate course of action.

It would be interesting to reflect upon an actual experience at Kall Kwik which may demonstrate the difficulty of turning tacit knowledge into explicit knowledge and explicit knowledge into a 'goldmine':

A new Franchisee obtained a job to produce 10,000 double sided black and white copies. The Franchisee ran 10,000 copies one side at the end of the day. When the Franchisee tried to complete the job the next day, he discovered that the paper started to curl (effect of the copying process the day earlier; he should have done both sides immediately) and would not pass through the copier. Having observed the predicament of the Franchisee, and after sharing the real pain being experienced by him, the candidate decided to approach the two hundred Franchisees and invite each of them to send 'one practical, not necessarily obvious pain saving idea' to Franchise HQ. The Franchisor would then (after editing the input) produce a booklet containing all the non-duplicated and tested ideas. To engage the Franchisees the Franchisor promised that each Franchisee would receive such booklet(s) (free of charge, of course), plus a few prizes would be raffled amongst the 200 or so participating Franchisees. The idea was that each of the Franchisees (even those who had been in business for a while) would be likely to benefit from the input. To the great surprise of the candidate only a handful of suggestions were received. The big prize? It was a round-the-world free airline ticket for two! (Economy).

It is quite clear that "knowledge/intellectual capital combined with systems and procedures which are capable of facilitating the participation of all individual members of the team are essential to the development of a successful enterprise."⁶¹

- And finally, "Knowledge creation extends the organisation's capabilities by leveraging the expertise of its own members, and by learning from and with others outside the organization. In mobilising internal knowledge, information processes are managed to promote the sharing of information, conversion of tacit knowledge, experimentation and prototyping, and the migration of knowledge to other parts of the organization."⁶²

⁶¹ Ibid: 152

⁶² Ibid: 153

4. Is the D.Prof Submission delivering the 'goods' in the light of:
 - 4.1 The candidate's vision for the project –
 - 4.1.1 Empowering The Individual Within A Productive Franchise Relationship –

Franchising and Globalisation are interesting bedfellows. Both concepts are capable of evoking strong sentiments – not necessarily positive. Yet, both concepts have been around for quite a while in one form or another. Both concepts are capable of supporting economic growth and facilitate an improvement in the standard of living within the communities where the concepts are practiced with skill and integrity. It is clear that principles of good Franchising and good Globalisation need further airing. There is too much hype, anxiety, ignorance and often political manipulation to allow the public at large to understand the true potential of both concepts to help usher a more equal, economically progressive, democratic society. Democratic Capitalism is more likely to spread its wings within the environment of a large scale participatory Enterprise Economy than under any other potentially known and practiced economic structure.

It is the submission of this paper that Franchising and Globalisation are both essential tools to the development of a more sustainable Enterprise Economy throughout our globe.

- 4.1.2 Community of Franchise Practitioners –

In order to speed up the process of integrating Franchising, on a much grander scale, into the global economy, especially in the developing world, **it is necessary to invite the community of Franchise practitioners** to consider, observe, investigate, assess, reflect, research, draw upon their experience and eventually produce new and improved ways for practicing the Franchise Concept. Better Franchising will help communities, nations and the global economy manage, with less disruption, the vast structural changes which are happening all around us.

- 4.1.3 Entrenched Opinions –

Improving upon existing franchise knowledge and practice is an important task but not an easy one; opinions are entrenched. Franchise practitioners are too busy earning a living and all too often those who find the time to write are either too remote from the day-to-day points of friction to be able to add the new practices which are necessary to lubricate the 'stiff joints', or, are too close to the 'smouldering fire' to have a sufficient level of detachment and objectivity. **It is necessary to rally the community of Franchising practitioners and on a regular basis** – at least once a year – pursue together a clear agenda of issues - selected for discussion and research on the basis of the respective importance which the group had considered and identified.

Tapping the combined knowledge, theoretical and practical, of the practitioners' community will inevitably lead to greater understanding of the underlying issues and culminate in new ideas and approaches to be tried at the

sharp end. **The candidate sees the Submission to be a contribution towards a vision of greater effort by all concerned to harness the intellectual capital which resides with every practionner.**

4.1.4 Improving existing understanding and practices –

Enhancing existing understanding and practices of Franchising will be an important contribution to the well being of the individual Franchisee, the success rate of Franchisors and the value received by the customer. A more effective Franchise Relationship is also **likely to encourage individuals and existing businesses to choose the Franchising Concept as an attractive business option** i.e. as Franchisees or Franchisors. The Banking community will be keener to provide funding to both Franchisors and Franchisees when the climate of success improves. A veritable virtuous circle. It is important to emphasise that having additional Franchise systems in operation can be vital for the well being of the economy, locally and globally. Not only more jobs will be created but also more people will be gaining the skills which good Franchisors as a matter of practice impart to their Franchisees and System employees. Franchising, in addition, has an indirect positive impact on the SME sector because it **helps disseminate good practice in the management of small business**. On the other hand, Franchising is also involved in ‘substitution’ within the market place i.e. a newly arrived franchised print shop may actually impact negatively on the business of a few independent print shops in the area. Whilst the ‘substitution effect’ is a consideration, often the reality of the situation is one of expansion. If the franchised unit is extremely efficient and employs good marketing tools and techniques (provided by the Franchisor) the likelihood is that the overall local market would expand beyond the amount of business garnered by the new local participant.

4.1.5 Franchising and Innovation –

- Every local Franchisee, to be successful, has to be equipped with a system that is ‘just a little bit better’ than the equivalent independent SME. This is so because the Franchisee is likely to be carrying higher overhead costs (including the Franchisor’s share) which can translate into investing in up to date equipment/facilities (where appropriate), investing in branding, etc. Therefore, the Franchise System will have been ‘obliged’ to introduce a number of innovations into the operation of the business to facilitate the generation of higher average sales and thereby produce a reasonable return for the Franchisee (on average higher than that achieved by an independent business in the same sector and operating in the same market.)
- Franchising offers the global economy and the local community a tried and tested business format ready and able to tackle serious product and service distribution issues in the developing and underdeveloped nations. Some of these countries are finding it difficult to come to grips with

simple public service functions. The tendency to concentrate a good deal of economic activity in the hands of government emanates from the desire to maintain a tight political grip on the nation and its resources but also in part because alternative distribution channels do not exist (to some extent because of the stranglehold the politicians have on the structures). **Franchising, supported by the UN, World Bank, western governments, etc. could roll out very quickly new and effective distribution channels reaching out even to remote regions.** The impact of such activity would go far beyond the actual distribution of the specific product/service. The method itself, the boldness of the change and the fact that it offers the unique individual the opportunity to better himself will bring the sweet scent of hope to these nations. **The Submission contains arguments to encourage Franchisors and public organisations to consider the concept but also offers a number of specific ideas regarding services which could provide a great deal of added-value to the local and global markets.**

4.2 The Objectives –

4.2.1 Personal Objectives –

4.2.1.1 As Franchising Practitioner

- Objective: To increase the existing knowledge base of Franchising and share own experience and practice -
: Delivery: The Submission is wide ranging and incorporates input of value to Franchisees, Franchisors, government, advisors, academics
- Objective: To promote the expansion of Franchising as a safer route to business and personal success -
: Delivery: Although the Submission is written in a positive light, to encourage interest and support for Franchising, the text is balanced and factual
- Objective: To encourage greater understanding of business issues which need to be addressed by all SMEs (including Franchising) -
: Delivery: Throughout the Submission business and management issues are tackled and discussed. This should benefit Franchisees and Franchisors alike
- Objective: To encourage the establishment of new Franchise Systems from scratch -
: Delivery: Reading and studying the Submission is likely to discourage some from attempting to undertake

what is quite a task. However, the candidate is confident that the text, when read (and the context understood) by the appropriately equipped individual, will help bring to life the challenges, the excitement and the business opportunity

- Objective: To provide prospective Franchisees with an easy access to Franchising knowledge and practice -
: Delivery: The Submission is designed to enable and guide the individual towards acquiring a reasonable understanding of the issues of operating a franchised small business. This overview and knowledge should help the individual make a more accurate/reliable business decision

4.2.1.2 As a Citizen of the World –

- Objective: To call the attention of governments and international financial institutions (UN, World Bank, etc.) to the benefit which Franchising can bring to the underdeveloped and developing nations -
: Delivery: The Submission describes the attractions and potential benefits of Franchising to developing nations where distribution networks are often inadequate
- Objective: To encourage the World Bank, UN and western governments to sponsor innovative ideas with the capacity to bring about a transformation in the dire economic and social straits of the underdeveloped and developing nations -
: Delivery: The Submission is detailing a number of innovative ideas which singly, but preferably together, could support and have an important impact on the war on poverty. Large scale poverty reduction is a key to the survival of the species.

4.2.1.3 As an Individual –

- Objective: To improve the candidate's own knowledge of Franchising -
: Delivery: The review of personal learning, personal Franchising knowledge, personal Franchising practice, review of literature, reflection and especially the writing process have made a substantial contribution to the nature, shape, depth and appreciation of candidate's own Franchising expertise
- Objective: To share own knowledge with the Franchising community (a debt of honour) -
: Delivery: The Submission could be turned into a

number of publications which could be made available to the various interest groups

- Objective: See a book(s) about Franchising published and distributed (including libraries) -
: Delivery: The Submission will be edited to produce a number of relevant publications
- Objective: To gain the D.Prof Degree -
: Delivery: Time will tell

4.3 Level 5 Descriptors –

The following paragraphs are presented by way of a re-enforcement or re-iteration to the candidate's capacity to exhibit Level 5 descriptors; a capacity which is demonstrated by the wide ranging, innovative and comprehensive discourse contained within the Submission.

4.3.1 Knowledge –

The process of designing and preparing the overall structure for the Submission, the sifting through the accumulated data, the selection of the contents, the reflection upon the long years of practice, the development of innovative and ambitious business ideas for 21st Century Franchising and the writing of the Submission itself are evidence of: the significant depth of knowledge, of an interdisciplinary nature - in a complex - area which the candidate has been able to demonstrate.

4.3.2 Analysis –

The examination and analysis of a whole range of complex issues. Including, for example, the elements which make up the power struggle between Franchisor and Franchisee - which can be a destructive feature of Franchising - and in turn will slow down the evolution and development of the Franchisor/Franchisee relationship.

4.3.3 Synthesis –

The opportunity to take the Franchising Concept which works so well in known conventional sectors, say fast food, and translate the network potential into the delivery of poverty alleviation programs via, for example, a Micro-Banking Franchise in the developing world.

4.3.4 Evaluation –

The Submission contains some 140 Questions and Answers (see Appendix 7.7). Each question raises a different Franchising or business related issue. Each answer offers an opportunity to present the reader with a reply which whilst founded on the issue, attempts to widen the business or ethical horizon of the beneficiaries.

4.3.5 Self Appraisal/Reflection on Practice –

The candidate served for fourteen years as a member of the Council of the British Franchise Association. Much of the work/engagement there was to reflect upon the development of Franchising in the UK. The candidate used this information also to reflect upon what was being done in Kall Kwik and to appraise own performance vis the other Franchising executives, and Franchising companies, represented on the BFA Board. The candidate took full advantage of the observations, experience and knowledge gained at the leading edge of Franchising whilst on the British Franchise Association Council, in the preparation and the methodology for the Submission.

4.3.6 Planning/Management of Learning –

The candidate continued to reach out for opportunities to learn and enhance own and corporate knowledge throughout his professional years. The D.Prof. commitment is an example. The process of preparing for the D.Prof itself entailed the examination and re-examination of all the previous experience, practices, opinions, views, accumulated knowledge and writing in order to obtain and create first an overview and direction and then focus on the detail. During the long process the candidate gained, learned and benefited from the interaction with the National Centre for Work Based Learning Partnerships. This process was enhanced by revisiting literature especially Franchising sources. Throughout the planning process the candidate was keenly aware of the need to maintain a steady view of the needs of the community of interest (Franchising Practitioners and Franchisees) for whom the product has been designed.

4.3.7 Problem Solving –

Throughout the development and writing of the Submission the candidate had to undertake and tackle different issues and problems, make choices and reach decisions. In addition, a central section of the Submission, the Q & A section (see Appendix 7.7), is wholly composed of some 140 operational and Franchising problems and the proposal of specific solutions. Furthermore, the

proposals for the Micro-Banking Franchise is an excellent example of creative/innovative problem solving at the highest level.

4.3.8 Communication/Presentation –

In the context of the development of the D. Prof programme the candidate had written and produced three booklets detailing own life journey, learning achievements and professional experience gained, as well as, defended them and obtained approval and accreditation from the examining panel. Throughout the years of writing the D. Prof the candidate had numerous meetings with the team at the National Centre for Work Based Learning Partnerships and on each occasion was challenged to present and defend his ideas and submissions. On a fair number of occasions the candidate was required to review the material, re-submit and argue the case. The candidate submits, that his ability to defend the Submission, as well as, present it to the community of interest for whom it was intended in the first place, is solid.

4.3.9 Research Capability –

Whilst the Submission was based wholly on the personal experience, illumination and hands-on practices gained by the candidate over many years of engagement in Franchising, the process of preparing for the D. Prof involved a great deal of research into and careful selection from the candidates personal archives. These archives were assembled throughout a life time of interest in Franchising, but, in terms of bulk, evolved during the twenty one years at Kall Kwik. The issue of objectivity is an acute one and the reply to it was the interval of almost five years now since the departure of the candidate from active Franchising. Research practices and experience per se were acquired by the candidate during the formal educational years and during employment with the Company for the Finance of Industry and the Defence Ministry. The approach followed was autobiographical, capitalising on the preunderstanding of the candidate and using the D.Prof. as a facilitating framework.

4.3.10 Context –

The Submission is packed with ideas, innovations, and problem solving suggestions which are at the leading edge of current world Franchising thought and practice. The candidate managed to harness Franchising Knowledge together with operational business knowledge, as well as, to marry Franchising solutions to major economic and social problems facing the developing world. The marriage of Franchising and Micro-Banking, the combination of Franchising and Birth Control are two examples of innovative cross-disciplinary approach and understanding.

4.3.11 Responsibility –

The Candidate has taken the task of knowledge sharing and writing for the benefit of the Franchising community very seriously. One reason the candidate had undertaken the D. Prof programme was in order to have the discipline to write a professional account of his experience. The innovative ideas proposed within the Submission regarding the ways that innovative/hybrid Franchising could help tackle issues of poverty and opportunity, reflect the high degree of commitment and social responsibility which guide the candidate.

4.3.12 Ethical Understanding –

The D. Prof programme itself is very much about Ethical Commitment and Responsibility. Understanding the ethical issues and dilemmas which we encounter in our professional life is only the first step. During the process of writing the Submission the only relevant external interface the candidate had were the people at the National Centre for Work Based Learning Partnerships. (There was no employer to answer to.) As such there were very few issues of ethical discrepancy or ethical dilemmas. However, within the context of the Submission, the candidate had dealt with many ethical issues e.g. Franchisor/Franchisee Relationships, The Power Struggle in Franchising, the Advantages and Disadvantages of Franchising, the issues of poverty, over population, skill dilution, immigration, etc, etc. The Submission is packed with ethical dilemmas but also with exciting ethical solutions and opportunities.

5. The Global Transformation –

- 5.1 It should be quite clear from the Submission that the candidate is keen to see and determined to contribute towards a greater understanding of the complex societal risks which the global community is facing, but, also ready to propose ideas for change.
- 5.2 The candidate is convinced that Franchising has an important role to play in tackling, head-on, the main issues of our time, i.e. of poverty and opportunity (which are interlinked).
- 5.3 The candidate believes that a global transformation which would bring each individual a little closer toward an equality of opportunity could be facilitated by investing a great deal of time and effort to capitalise on the intrinsic structures of Franchising, i.e.

- Know-how
- The sharing of expertise
- Constant renewal
- Branding
- Economies of scale
- Geographical reach
- Multiplication

5.4 The candidate believes that the contents of the Submission contain valuable input which is likely to be welcomed by those already calling for 'new' tools to tackle and harness the winds of change.

6. Personal Learning: reflections upon the experience –

6.1 In general

- The whole process of getting to grips with the project took about five years. Some of the time was absorbed by unavoidable issues such as protracted ill health and death in the family.
- The inclusion within the Submission of Empowerment issues (both local and global) turned the candidate, in a way, from a Franchisor writing about his years of experience in Franchising into a 'visionary', a social scientist, a professional concerned with greater issues, with change and transformation.
- The interaction with the team at the National Centre for Work Based Learning Partnerships itself had made a significant impact on the candidate. There is little doubt that the shared discussions, numerous exchanges of ideas and demands made in terms of scope of reflection and the examination of issues had translated themselves into a more wide ranging exploration within the Submission and of the issues contained therein, e.g. even in the early stage of the D.Prof. program, when the candidate was engaged in preparation of the booklets in support of the accreditation claims, the interaction with the advisor was extremely useful. Although the advisor's input was by way of direction/guidance only the candidate recalls the clear observation, upon re-reading the material, say twelve months later, that the overall quality of the work was enhanced as a result of the exposure and the impact of the challenges offered and advice given.

6.2 Submission in Particular

- The candidate set out intentionally on a journey designed to explore and exploit his own experience and the insights gained during forty years of great interest in Franchising. And twenty one years of intensive hand-on experience.
- The years at Kall Kwik were intense and challenging. It was a 'passionate love affair' with both the Franchise Concept and the Kall Kwik extended family. However, this intensity made the tackling of the subject matter more challenging. Not that the candidate was not aware of the 'friction-points' of Franchising. (The 'scars' embedded on his back are proof enough!). Nevertheless, it was important to allow time for some distance to develop and a new perspective to emerge.
- The considered examination of issues and the continuing accumulation of ideas were just right in order to be able to keep things in perspective and not rush into conclusions.
- There is no question that putting together and writing the Submission was the single most demanding and most challenging and most exciting piece of writing which the candidate had undertaken to date. But, this should not be a surprise since the Submission contains the fruits of forty years of study and practice of Franchising.
- The work done and learning gained from the progress of the Submission have prepared the candidate for the next project. This is going to be to explore and assess the needs of society for a greater input from the voluntary sector and how Franchising can help.

7. Appendices

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Appendix 7.1

Is Franchising a Magical Road to Riches?

How Franchising could have started

What is Franchising? What is a Franchise? Is it some kind of a confidence trick – or a magical road to untold riches? It is, of course, neither a gimmick nor a miracle path to quick wealth. Yet, the author can say with a confidence derived from experience: “If you apply the contents of this book to the full, you could well achieve financial and personal rewards beyond your wildest dreams even become a millionaire”.

Let’s begin with a true-to-life business story, one which explains succinctly what Franchising is, what roles the different parties involved in it play, why Franchising works, and how all parties involved benefit.

It is more than a story, which might have happened; it is in fact a story whose basic elements are happening every day of the year in many parts of the world – the story of two men we’ll call Bill Brown and Harry Smith.

Bill Brown was a very prosperous businessperson, the owner of a large, successful flower shop, “Flowers Delight”, which was the talk of his neighbourhood. Not only did the shop sell a large range of excellent plants and flowers, beautifully presented, but the attractive shop was ingeniously planned and designed so as to maximise the operating efficiency and profitability of the business. The “Flowers Delight” name above its high street shop-front was widely known and had become a synonym for quality; customers came from all over town to buy there and some even travelled from surrounding suburbs to seek it out.

Harry Smith, who had for some time been one of Bill’s loyal and satisfied customers, one day came to the shop to have a private chat with its owner. He told Bill he had just been told by his Company to relocate overseas, but that being asked to move home was this time once too many. He was tired of being shunted about from city to city at the whims of his Company, especially as his children were at last settled down happily in their local school. It was just impossible for the entire Smith family even to consider the pain and disruption of another relocation. He was fed up, ready to quit, and was thinking seriously of going into business for himself. Being independent and owning a business had always appealed to him; he was now anxious to become his own boss. He had always liked the “Flowers Delight” concept and felt that he and his wife could do well operating such a business for themselves.

What he now wanted to know was whether Bill Brown would be willing to let him duplicate the “Flowers Delight” shop design and methods of operation, as well as, to use the “Flowers Delight” brand, thus benefiting from the positive public image and wide market awareness Bill Brown had established for the name of his shop.

While Bill Brown was flattered and delighted to hear Harry Smith compliment him on his shop, he utterly rejected out of hand the idea of allowing Harry to capitalise on the success of the “Flowers Delight” concept. In fact, it seemed to Bill that Harry was out of his mind even to have suggested such a notion.

For one thing, Bill was himself thinking of opening additional “Flowers Delight” branches and therefore wasn’t in the least amused by the idea that Harry Smith might start operating somewhere else in town, serving some of his current customers and potential customers under the “Flowers Delight” brand name and benefiting from the brand reputation.

Harry took Bill’s rejection in his stride and told him he fully understood his position. However, he wasn’t suggesting something for nothing; he would be willing to pay for the value he was so keen to obtain. “Flowers Delight” was a valuable brand-name; starting a flower shop under that name would, he believed, be a certain success, especially if he also copied Bill’s methods of operation, shop design, and much else that have proved so profitable and popular with customers.

Digging in his heels, Bill Brown said he would not even consider allowing Harry to acquire competing rights within his market for anything less than £500,000. The business was an excellent one and the profits were substantial; his own plan to open additional units would allow him to capitalise on his past success by reaping big future rewards. Harry’s idea was out of the question.

Smith was crestfallen; all the more so after Brown had told him the potential profits of the business were substantial. He knew he could never raise anything remotely like the £500,000 Brown seemed to want. Nor would that be the only expense; in addition, he’d have to find premises, shop fit them, hire shop assistants and incur losses over a period of time before the new business started paying its way. Leaving the shop, Harry said he’d consider the points Bill had made and come back to him shortly.

The next 24 hours were anxious ones. There were a number of crucial decisions Harry had to consider. He needed to tell his boss whether he would accept the new posting or whether he’d resign. But, at 40 years of age, Harry was not certain he could find a comparable position in another Company if he decided to quit his job. Uncertain what to do, he nevertheless felt there must be some way to convince Brown to let him duplicate the “Flowers Delight” concept and allow him to capture part of the market for his very own. Finally, Harry had what struck him as a brilliant idea, and he rushed to share with Bill Brown the following formula; Instead of paying Bill Brown an up front lump payment of £500,000 which he could not manage, Harry would pay an initial one-time payment of £10,000 plus a continuing monthly fee of six per cent of the total sales turnover of his unit as long as the business was in operation.

That way, he argued Brown would over the years obtain the £500,000 which he felt was the value of his concept, combined with his loss of his market share. In fact, insisted Harry, Brown would very likely end up with substantially more than just £500,000 possibly even double or treble that amount.

Moreover, Harry would, in addition, be willing to pay a monthly fee of four per cent of his sales turnover into a fund, if Brown would also put four per cent of the sales turnover of his own shop into this fund; the combined money would be used to advertise and promote the “Flowers Delight” concept and brand for the benefit of both parties.

Harry added that he would only be willing to pay these substantial on-going sums on the understanding that Bill would offer him on-going assistance in the form of access to new marketing and product ideas which he would promise to develop, as well as, providing him with an introduction to Bill’s own suppliers so that he could benefit from better price and payment terms.

Bill could see the advantages that might accrue to him from the proposition. Of course, he recognised the commitments he would be required to make by way of on-going support, as well, as that he would suffer an irrevocable loss of sales in the location he would be “selling” to Harry. He also recognised he would be in for a big investment right from the start for he would need to build a support team to guide Harry and any others like him in the future to greater success.

However, Bill saw that if he allowed a number of people like Harry to “lease” his system he would get better efficiency from his support team, eventually make a good return on his initial investment, and recover part of the loss of the alternative opportunity he’d be giving up – operating his own units.

When Harry Smith and Bill Brown shook hands on their deal, a Franchise system was born. Bill Brown became the Franchisor and Harry the first of his “Flowers Delight” Franchisees. The rest is history.

Appendix 7.2

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Appendix 7.3

7.3 The Candidate: Moshe Gerstenhaber

Candidate Background Information: Life Experience Highlights

- Middlesex University – National Centre for Work Based Learning Partnerships.
- D. Prof Programme
- Project Title: Franchising – A Local Participant in the Global Economy

7.3.1. Formal Education:

- Primary and Secondary education in Israel
- Economics: Columbia University NY, USA.
- Post Graduate Business Administration: London School of Economics
- Further Post Graduate Studies at the LSE (1966-67)

7.3.2 Life Long Learning Knowledge Accumulation:

- Enjoyed unlimited curiosity regarding matters of economics, Franchising, business, technology and the impact on society and the individual from the globalisation of trade and the relentless advance of technology.
- Attended substantial number of seminars, work shops and lectures to do with Franchising and diverse other economic and social issues (including at the RSA).
- Voracious reader of professional magazines and books to do with many areas of interest (business, franchising, history, technology, society, etc).
- Met over the years a large number of business people, academics and technology people. Used each opportunity to acquire additional information and cutting edge knowledge.
- Served over the years on a fair number of diverse working groups and committees, both in Franchising and Business in general and have had the opportunity to investigate important economic and business issues in the company of talented and very experienced people.

7.3.3 Major Career Developments -

- Finance for Industry, Israel (1968-69) –
 - Major investment Company established by the Government to stimulate industrial growth.
 - Economist: Function required analysing proposals for the expansion of existing plants and establishment of new manufacturing facilities.
- Defence Ministry, Israel (1970-71) –
 - Senior Economist: Responsible for evaluating major contracts being placed with manufacturers with the aim to utilise expenditure to stimulate local industrial growth and employment. At the same time expected to apply business management methods in negotiating better terms from major local suppliers.
- Maritimecor S.A. Zurich (1971-75) –
 - Finance Manager: The Company was the main holding subsidiary of the Maritime Fruit Carriers Group which established itself as one of the world's largest independent owners of modern refrigerated shipping.
- Business Advisor (1975 – 78) –
 - Independent Business Advisor in matters of finance, shipping and general investment to a number of substantial international companies.
- Kall Kwik Printing (UK) Ltd (1978 –1999) –
 - Founder, Managing Director and Chairman of the Kall Kwik Franchised Network.
 - Negotiated the terms of the license from the Kwik Kopy Corporation of Houston, Texas.
 - Assembled the investor group, including ICFC (now 3i).
 - The business was taken over in 1999 when it had some 200 Printing Centres in the United Kingdom with annual System Sales of some £75m (highest industry turnover in Europe).

- Kall Kwik was the beneficiary of the following British Franchise Association awards:
 - : Franchisor of the Year
 - : Franchisee of the Year
- The Candidate was personally awarded by the British Franchise Association the honour of 'Companion to the British Franchise Association'.

7.3.4. Major Volunteering Experience -

- **The Prince's Trust (PT) –**
 - Proposed the idea of the Masks fund raising and awareness building Campaign to the PT – which is part of the charitable activities of The Prince of Wales.
 - Raised the seed capital and managed a complicated but very exciting campaign over a period of two years.
 - Secured over 500 painted Masks from celebrities. (1500 blank masks were sent out).
 - The Masks were sold in both public and silent auctions to raise substantial funding to support young people from disadvantaged backgrounds.
 - The Campaign gained a substantial level of media coverage for the PT and helped to reinforce its brand values.
- **Royal National College for the Blind –**
 - Initiated a fund raising campaign subsequent to the Masks event for the PT to the benefit of the National College for the Blind.
 - The motive of the campaign was Team Building through Creativity i.e. Mask Painting.
 - 3500 Chief Executives of the UK top companies were approached (2000 of whom received also a personalised letter from the Chairman of 3i).
- **Non-Violent Communication (NVC) –**
 - NVC is a concept originally developed by Dr Marshall Rosenberg in the USA. It facilitates less confrontational relationships by teaching people to express their feelings and needs whilst making every effort to understand the other party's feelings and needs too. The process is aided by encouraging the NVC practitioner to be very precise with their observations and requests.

- Supported activities of NVC in Israel.
- Have been encouraging Middlesex University to establish a National Skill Centre for Conflict Resolution and Violence Prevention (using the NVC methods) as a way to differentiate the University, support the development of its Brand Values and create an additional income stream from teaching schools, universities, the police, the commercial sector, etc how to operate in a less confrontational and more open environment.
- **Lecturing –**
 - Over the years, on many occasions lectured on matters of Franchising and issues associated with SMEs (probably over 100 times) on behalf of various universities (e.g. London Business School, City University, Durham University, Judge Institute – Cambridge, Middlesex University), the Clearing Banks, British Franchise Association, etc.

7.3.5. Public Service -

- **British Franchise Association – (BFA) –**
 - Served 14 years as a member of the Council of the BFA.
 - Served twice as the Vice-Chairman of the BFA.
 - Served on the BFA Committee which was asked to advance the cause of greater Franchisee participation in the activities of the BFA.
 - Conceived the concept ‘Franchise Register’ (now renamed ‘Franchise Forum’) which was adopted by the BFA to incorporate Franchisees in the BFA without diluting both Franchisees focus on their businesses and Franchisor Companies overall control over the Association (which is an Association of Franchisors).
- **Confederation of British Industries (CBI) –**
 - Served for five years as a member of the CBI London Regional Council.
 - Served on a number of working groups.
- **Middlesex University –**
 - Served for five years on the Middlesex University Business School Advisory Board.
 - Since 2000 (3 years) Independent Member of the Board of Governors of Middlesex University.

7.3.6. Major Educational Experience

- Columbia University –
 - Worked closely with Prof. Ilsa Mintz
 - The project: Open Market Operations of the USA Federal Reserve Bank (final year degree research)
 - An interesting learning experience; How the USA influences/regulates the rate of interest in the world's largest capitalistic market.
- Initial Exposure to Franchising –
 - This happened whilst in the USA as a young student.
 - In 1960 there was very limited published literature on Franchising.
 - Followed developments in the Franchising Community ever since.
- London School of Economics –
 - Worked closely with Prof. B.S. Yamey.
 - Researched and investigated material for a dissertation titled: Foreign Private Industrial Investment in Israel. The idea was to examine the Israeli law for the Encouragement of (Foreign) Capital Investment and assess to what extent it was successful and to what extent it created unhealthy anomalies in economic growth.
- Finance for Industry –
 - Market Research: Investigating relevant sectors and industries.
 - Studying Business Plans submitted for funding.
 - Preparing investment assessments and making recommendations.
- Defence Ministry -
 - Large bureaucratic structures: How they work and their weaknesses.
 - Negotiating large scale industrial and purchasing projects.

- Maritime Fruit Carrier Groups (MFC) –
 - Exposed to private enterprise on a very large scale; the MFC Group became one of the world's largest owners of refrigerated shipping.
 - Exposed to risk taking and bold business decisions.
 - Understood that 'risk' must be backed up with very 'focused' day-to-day management.
 - Learned (as the Finance Manager of an International large subsidiary) to manage Cash Flow on a very large scale.
- Independent Business Advisor –
 - Working with a number of quite substantial and active international groups helped acquire greater understanding of the issues associated with Entrepreneurship and Enterprise.
 - Exposed, once again, to business on a global scale.
 - An opportunity to enjoy exposure to a range of activities (experience of diversity).
- Kall Kwik –
 - Business Start-Up experience: Launching Kall Kwik the Franchisor.
 - Business Start-Up experience: Working with hundreds of SMEs i.e. Kall Kwik Franchisees and suppliers.
 - Experience with the Kwik Kopy Corporation of Houston, Texas; Kall Kwik's own Franchisor.
 - : The initial transfer of knowledge from the US to the UK organisation.
 - : Sharing and working with US Franchisees.
 - : Sharing and working with US Franchisor individual managers.
 - : Learning 'how not to do it' (critique of US development and style of operation – also 'ego' and 'conflict' issues).
 - How to build a National Brand with lasting 'brand values'.

- How to build a Franchised National High Street chain of 200 units with almost 1500 employees at the 'sharp end'.
- Middlesex University -
 - Middlesex University Business School Advisory Board. Five years of flux, change and excellent progress.
 - Middlesex University Independent Member of the Board of Governors: Three years during which time much deliberation has taken place i.e. what needs to be done to steer the University towards a sustainable quality future for staff, students and society.
 - Excellent opportunity to learn how academic institutions think, feel and operate.
 - Learned about the strains finance places on the development opportunity of UK Higher Education.
 - Expanded my thoughts on where the Global Market for Education will lead us in the near future.
- D.Prof –
 - An opportunity to examine my overall experience of Franchising and business i.e. twenty one years as hands-on practitioner and some forty years altogether.
- The Future –
 - A personal view of the likely trends in education, technology, pensions, employment, etc.

Appendix 7.4

7.4 The Candidate: Moshe Gerstenhaber (MG) -

- *Candidate background information: Industry Applicable Experience.*

7.41 The Kall Kwik Story –

- Started the study of Franchising in 1960 – as a newly arrived student at Columbia University, New York, USA.
- Started thinking about and planning the development of Franchised Business in 1965.
- In 1968 made first contact with a Franchisor Company. This was a newly launched USA based Franchise called Mini Pearl Fried Chicken. The idea was to find a way to bring the Concept to Israel (full story later). MG was 27 years old at the time.
- 1976 came to London after working 4.5 years in Switzerland with a view to stay one year and then return to Israel.
- In 1977 decided to focus on the Quick Print industry; Which was already fairly well represented in the UK, relatively speaking. Prontaprint was about 7 years old and with some 80 outlets. The Franchisor of Prontaprint (which was the only large Quick Print chain in the UK) had previously built successful distribution networks.
- As a ‘believer’ in the power of ‘Knowledge Transfer’ which is at the heart of the Franchising Concept MG was willing to pay for ‘past experience’ and ‘future support’ despite own constantly accumulating theoretical Franchising Knowledge over the years (see: Franchise Knowledge Accumulation: 6.2.2.) and the realisation that the US Franchisor’s Brand is unlikely to be known to any relevant extent in the UK.
- In 1978 managed to assemble an investor group including ICFC (now 3i – which was owned at the time by the clearing banks and the UK Government) and negotiated the Master License for the UK with options for Europe. The full capital payment for the Master License was \$10,000 and the ‘down payment’ \$500 -! the rest to be paid in \$500 instalments each time a unit is opened. In addition, it was agreed that an on-going

monthly payment i.e. on-going Franchise Fee of a fixed percentage of the sales turnover of the Units to be established (ex. VAT) shall be payable until the license expires.

- The Master Franchisor was the Kwik Kopy Corporation of Houston, Texas, USA. The Company was established some 13 years earlier and already had some 350 operating units all in the USA – mostly in the States closer to Texas. The UK operation was to be the first International expansion. The format **agreed** was a Master License for the UK with European options.
- In August 1978 MG started ‘officially’ to work full time for the project although many elements including the funding and the conclusion of the Master License Agreement were still in progress.
- In order to be able to gather the necessary local Industry Knowledge and relevant practical industry experience, yet keen to save time, MG recruited as ‘pilot units’ two existing Quick Print shops operating in Central London under the name Express Print. The two owners joined as partners/investors, as well as, ‘technical advisors’
- The funding contract/agreement proposed by ICFC turned out to be too onerous. It took a few months and not an insubstantial part of the funding itself (spent on legal fees) to negotiate the agreement. The funding was received early in 1979.
- The total funding available to the new Franchise at the beginning of 1979 was £10,000 in equity, £40,000 in subordinated shareholders loans (excluding ICFC) and £47,000 in medium term loan from ICFC. In addition, there was (questionable!) an overdraft arrangement in place of £30,000. It required a debenture over the business to secure its loan.
- Two important issues at this point in time which required a great deal of attention were the ‘brand’ and the ‘shop fitting’ package.
 - Brand: The Kwik Kopy name was used in the UK in 1978 by two existing Quick Print units operating in North London. As soon as Prontaprint learnt of the change of name by the two Express Print ‘Pilot Shops’, recruited for the purpose, to Kwik Kopy, the owner and senior management of Prontaprint encouraged the owners of the two North London shops to serve an injunction against the new Company claiming that it was ‘passing off’ and therefore benefiting from the reputation already established by the existing (and competing) Kwik Kopy UK operation. Initially, solicitors and barristers

were consulted and substantial amounts of very scarce resources (time and money) were wasted trying to defend the action. However, eventually the decision was made to drop the name Kwik Kopy Printing and adopt the name Kall Kwik Printing. The US Franchisor provided the alternative name and the graphic design which, although the word Kall is substantially different from Kopy, provided a very similar visual impact – though not one of pronunciation. The word Kall became a bit of a problem. Many clients referred to it as Kal and not Call (as in Call for Quick Printing). The fact that the brand became Kall Kwik meant the UK Company could not purchase from the USA Franchisor small quantities (as required) of promotional material to be used by the new units to build awareness and strength for the brand. The UK Company had, in order to obtain economies of scale, order fairly large runs of promotional and packaging material and store them. Thereby, tying up scarce working capital and requiring a warehouse operation.

- Shop Fitting: It was clear that the Kwik Kopy Corporation of Texas, which was launched by a 'printer', was not as concerned at its inception to create a uniform shop-fitting package, as it should have. By the time it had 350 units it was making a greater effort yet the design which it had adapted was not judged by MG to be sufficient for London and the UK. (It probably would not have been sufficient for New York City either). Much anguish and a great deal of effort was directed towards designing for Kall Kwik a unique, high tech, shop fitting package which in 1979 combined ground breaking shop fitting design, relatively low cost, flexibility, speedy assembly and using on the whole readily available elements which could be personalised and stored in the Company's warehouse to better serve the needs of the new units. One reason Kall Kwik managed to make an immediate impact on the market place was its innovative, eye catching and practical shop and shop fittings design.
- The first two new Franchised Units were opened in Central London in May 1979 bringing the total number of Central London Units to four.

- The first two Franchisees were:
 - A partnership of two female owners with previous quick print experience as employees of Express Print. They were backed financially by the owners of the two 'pilot' units.
 - An ex-employee of an Advertising Agency. The advertising agency was approached by the new Franchise Company to discuss potential ideas for its launch. The advertising executive decided on the spot that he would like to be the first Kall Kwik Franchisee. The unit he owned was in Pall Mall, West End, London.
- The Franchise continued to grow:
 - The first Franchise HQ was near Paddington.
 - The second Franchise HQ was in Hanwell, West London.
 - The third Franchise HQ was in Ruislip – attached to a Cash & Carry complex.
 - The fourth Franchise HQ was in Ruislip, Middlesex. At this point Kall Kwik had acquired the freehold of a stand alone building of some 14,000 sq ft (this move took place about 1989).
- After 7 years of operation Kall Kwik had 100 units.
- After 12 years of operation Kall Kwik had 200 units.
- The Sales turnover of all the units together referred to as System Sales was in 1999 some £75m p.a.
- Kall Kwik became Europe's largest Operator in its niche activity in terms of sales (not only in the UK).
- The Prontaprint (the main national competitor) average sales turnover per unit was in 1999 about 60% of the average sales of a Kall Kwik unit.
- During the years Kall Kwik developed in the UK far better than its US Master Franchisor. This in itself is an interesting area to explore i.e. the Master Licensee continues to pay on-going 'Franchise Fees' even for reducing or non-existent System improvements/innovations. At the same time the Master Franchisor can demand compliance with non-effective and/or not applicable, in the licensed market, practices. For example:
 - Brand Redesign: An interesting exercise took place around the year 1990 (about 12 years from the commencement of the Master License). It was decided in the UK that the original graphic representation of the Kall Kwik Brand provided

by the Master Franchisor in 1978 was damaging the vision the UK Management was guiding the UK Business Opportunity towards. The problem for the UK was that the Brand is owned by the Master Franchisor and ideally the Visual Brand should be identical (as far as possible) throughout the world e.g. McDonalds. The UK team hired a firm of Branding specialists and produced a new Logo which was blue rather than red and although had undergone significant graphic revision looked superficially very similar to the original logo. The UK itself paid substantial amounts to develop the new design. MG and another senior manager flew to Houston, Texas to share the new design with the Master Franchisor and the Canadian and Australian Master Licensees (two other substantial Master Franchisors). The end result of this meeting was that Kall Kwik was allowed to use the new logo in the UK whilst the others indicated that they were going to follow suit – sometime in the future. Until 1999 the UK did not receive any contribution towards its re-design costs and the USA, Canadian and Australian Franchisors have not officially adopted the logo although they stated that it was a much improved version of the original. A strict Master Franchisor would have either adopted the new logo – over time – and paid the cost (or substantial part of it) or refused the UK the request to update the Brand. A really good Master Franchisor would have initiated the updating itself.

- From its early days Kall Kwik was committed to an on-going process of change, innovation and training. The Kall Kwik training department was entrusted with the task to prepare and deliver a wide range of courses which were expected to reflect the ever developing Kall Kwik business proposition. The training opportunities which are available to Franchisees and their staff are designed to encourage and guide them with the vision, understanding and skills required to run the business efficiently and provide the client with a range of high quality Added Value desirable services.
- Without the on-going transfer and acquisition of skills the Kall Kwik Franchisees and their staff would be unable to operate their Centre (s) effectively and efficiently nor understand and accept the changes of direction which the market place dictates.

- The Kall Kwik Franchising Concept allows for the recruitment of individuals without previous print related experience (almost 100% of the Franchisees). All too often these individuals also lack a comprehensive business management training. Therefore, the training function at Kall Kwik has a pivotal responsibility to 'inject' over a short period of time – during the initial training – a high dose of business skills. Therefore, the on-going training modules are planned to build upon both the initial Kall Kwik training and the **life – experience** of the individual Franchisee.
- In the context of the Kall Kwik Business Concept the Franchisee is not expected to provide 'commodity service' at 'commodity prices'. The setting up cost of a Kall Kwik Centre, the cost of the Franchisor overheads and the income aspirations of the Kall Kwik individual Franchisee demand higher operating margins. A 'commodity products' commercial policy consigns most operations to higher risk, a life of drudgery with relatively low margins and meagre profits. Therefore, the Kall Kwik formula is based on a market positioning where the clients are being offered more sophisticated Added Value products and services. Life at this end of the spectrum is more demanding in terms of regular capital investment, on-going training requirements and change-management, but the rewards are also substantially greater – when the system is applied diligently. Another potential benefit is more consistent client loyalty.

7.4.2. Franchising Knowledge Acquisition & Accumulation –

- Started the study of Franchising in 1960 – as a newly arrived student at Columbia, New York, USA.
- Started thinking about and planning the development of Franchised Business since 1965 (1965 – Laundromats in the UK).
- In 1968 made first contact with a Franchisor Company: This was a newly launched USA based Franchise called: Mini Pearl Fried Chicken (named after a well known Country & Western singer by the name of Mini Pearl). The idea was to try and find a way to bring the concept to Israel although MG was only 27 and without the financial means to do so.
A general enquiry letter to the USA Company resulted in a telegraphed response stating 'we are coming'. Unnerved MG replied by telegram asking for written details for which there was no reply. Eventually, it turned out that the people who set-up the Mini Pearl

Franchise (ex-Kentucky Fried Chicken executives) sold some 3000 Franchises in a very short time but were unable to establish the Franchise System and the whole venture became a sad fiasco and thousands of Franchisees lost their investment.

- In 1971 tried (unsuccessfully) to interest investors (family friends in Germany) to invest in an 'exhaust repair' Franchise for Israel (like Kwik Fit).
- Around 1972-3 whilst working in Switzerland started the process of conceiving and planning three possible Franchise Concepts:
 - Quick Printing
 - Quick Picture Frames
 - Quick Photography Processing/Development (Photographic Laboratories)
- It should be noted that good quality publications about Franchising Practice were always fairly scarce. In about 1973-4 purchased in Germany a private publication which contained a series of useful articles about Franchising (unfortunately, MG can't locate the 'book' any longer).
- In 1976 MG moved to the UK – initially with a one year horizon. In 1977 decided to focus on the Quick Print industry – which was already fairly well represented in the UK, relatively speaking. (The plate making camera which made the Quick Print market possible was only developed in the second half of the 1960's). Prontaprint was already about 7 years old in 1977 with a network of some 80 Franchised outlets (the largest in the UK by far).
- In 1977/8 started the process of acquiring the Master License from the Kwik Kopy Corporation of Houston, Texas, as well as, organising the funding. The process of acquiring the Master License was not an easy one and offered MG an excellent opportunity to learn a great deal of first hand information about a Franchisor Company, how it operates, its Franchisees and their views and to start the process of learning about the complex interaction referred to as the 'Franchisor/Franchisee Relationship'.
 - The initial correspondence with Kwik-Kopy yielded a polite 'NO'. The Corporation had no intention at that time to expand overseas. It was too busy expanding in the US. Further correspondence with Kwik-Kopy elicited an invitation to the Annual Conference – where normally some 60%-70% of the Franchisees

come to be briefed by the Franchisor and share knowledge, experience and socialise with fellow Franchisees.

- The 1978 Kwik Kopy Annual Conference took place in Vale, Colorado. MG met with the Franchisor's Senior Managers (and owners), as well as, had an opportunity to learn how the Annual Conference is organised and how operational information is shared. MG met and talked with possibly a hundred (or more) Franchisees. MG was trying to talk to as many of the Franchisees present (possibly some 200 plus) and learn from them indirectly whether the Business Opportunity was working,

- : Whether they were satisfied with the support of the Franchisor.
- : What makes the Franchise Relationship work.

- Following the 1978 Conference MG flew to Houston, Texas to visit the Kwik Kopy Franchise HQ and meet with the Franchisor's Senior Managers. MG visited all the departments operated by the Franchisor and spoke to almost every employee on the premises.
- During this visit MG discovered that Kwik Kopy had also explored the idea of having the following associated Franchises:

- : Quick Photographic Processing
- : Quick Picture Frames Shops

This was an interesting 'revelation' to both MG and the Kwik Kopy people.

- It was during this visit that the Kwik Kopy people asked MG 'how many units will be 'opened' in the course of the first year of operation in the UK'. MG volunteered '5' and was concerned to see a smile on the lips of both the Chairman and President of Kwik Kopy. It transpired that during the recent year Kwik Kopy established during a 12 months period 150 new units.
- Despite the fact that the rate of initial openings in the UK meant very little to the Cash Flow of the Kwik Kopy Corporation, they agreed to allow MG to obtain a Master License with only

a \$500 down payment. The reasons they agreed to do so were:

- : They came to the conclusion that MG will be able to establish an independent indigenous operation in the UK which will not require too much 'hand holding' from the USA (resource conservation).
 - : They came to believe that the opportunity to announce the International expansion of the Kwik Kopy brand will give them a worthwhile competitive advantage in the home market.
 - : They realised that in the long term the flow of income from the UK (from the 'on-going' fee) is going to be meaningful and worth having.
 - : (Eventually, the annual payments made by Kall Kwik to Kwik Kopy were about £350,000. During difficult periods in the USA the Kall Kwik payments – which required very little cost to service them – meant a great deal to the survival of the Kwik Kopy Corporation. Subsequent to the UK Master License the USA granted similar licenses to organisations in Canada and Australia.
- In late 1978 the Master License Agreement was concluded and in early 1979 funding was in place. The Kall Kwik Franchise was launched officially as the first UK Franchise which had both A Master License Agreement with a serious US Franchisor and Institutional financial backing (ICFC). MG's educational, professional and practical experience was also un-typical in the UK Franchise Community at the time.
 - MG continued to participate in the Annual Kwik Kopy Conferences, meet with US Franchisees and observe their knowledge and experience.
 - MG and various Kall Kwik HQ personnel spent time in Houston, Texas undertaking the initial training like all new Franchisees plus received induction and access to all personnel, departments and activities of the Franchisor.
 - Kall Kwik established immediately a training school in the UK which trained all new Franchisees. Years later Kwik Kopy decided that all new Franchisees (irrespective where they were destined to operate) must come to Houston to undertake the initial US training

(this was in part a financial decision). Kall Kwik continued to run its own training school too i.e. the UK Franchisee undertook both the US and UK training programmes.

- In 1979 Kall Kwik opened its first Centres and in 1980 it had its first Conference, though the scale was quite modest at that time. During Annual Conferences but also in the many Regional Meetings which Kall Kwik held (several times a year – in various parts of the country) information and knowledge were shared with the individual Franchisees, ideas received and problems aired.
- Around 1980/81 MG took Kall Kwik into the British Franchise Association. At the time the BFA was at its early days. MG continued to support the BFA and served some 14 years as a member of its Council (twice as Vice Chairman). During these years MG was at the heart of all the issues surrounding Franchising. From trying to differentiate Franchising from Pyramiding, in the eyes of the public to encouraging ethical Franchising practices.
- MG wrote continuously on Franchising matters both internally addressing the needs of Kall Kwik the Franchise and externally in articles and Questions and Answers which were published simultaneously by two of the three UK Franchise magazines.
- MG lectured throughout the years to substantial audiences of would be Franchisees and other Franchisors in BFA Franchise Exhibitions, Seminars, Clearing Banks seminars, 3i seminars, Institute of Directors, London Business School, City University, Durham Business School, The Judge Institute Cambridge, Middlesex University Business School, (and other Higher Education Institutions) as well as, BFA Conferences and international venues organised in Italy, France, Greece, Portugal, Israel, etc.
- MG continued to discuss issues of Franchising with fellow Franchisors on a constant basis. After a while – as the reputation of Kall Kwik and MG grew in the UK and elsewhere – Franchisors and others would approach Kall Kwik and MG for advise.
- MG constantly interacted and discussed Franchising issues with professional advisors (solicitors, accountants, etc) and the bankers who provided funding for Franchising. MG was invited to speak and/or attend many ‘exchanges of ideas’ seminars which were organised over the years by both Professional Advisors and the UK Banking community.
- The fact that Kall Kwik developed to become Europe’s largest Franchise (in terms of sales) in its niche market

and one of the UK's and Europe's larger Franchisors overall, is a testimony to the skills of the Kall Kwik team and MG.

- MG started as the Founder, MD and Chairman of Kall Kwik (all at once) but later first nominated a General Manager to report to him and later a Managing Director to take responsibility for the day to day operation. Nevertheless, MG always remained very close to the business and retained a close knowledge of the main issues especially those to do with Franchising and the Franchise Relationships.
- During the years MG continued to meet Franchisors, Franchisees, Accountants, Lawyers and other Professional Advisors both in the UK and abroad including at the International Franchise Association (IFA) Conferences. All these venues offered a great opportunity to exchange views and learn from first-hand Franchising experience and be exposed to new academic research in the area (more in the USA than the UK in previous years).
- Throughout the years MG has taken time to study Franchising, read available material and reflect upon the issues which are at the heart of Franchising.
- The constant activity of considering, discussing, talking about, writing and presenting Franchising and operating issues has helped MG to broaden own understanding of the strengths, weaknesses and opportunities associated with business in general and Franchising in particular. In order to be able to Share Knowledge and Experience it is necessary first to reflect upon the issues and 'reduce' the matter into a format which will be readily understood by the target audience.

7.4.3. The MG Franchising Expertise – (Summary) -

: Qualifications to Undertake the D.Prof. Programme on Franchising –

- Twenty one years of hands-on Franchising practice
- Forty years of study and interest in Franchising.
- Established one of the larger and more successful UK Franchise networks.
- Established Europe's largest network of Print, Copy, Design business support services.
- Recognised as one of the most experienced Franchise experts in the UK.
- A prolific published writer on Franchising and business issues.

- A prolific speaker on Franchising and Franchising practice.
- Recognised as a serious, reflective and committed Franchising practitioner.
- For 14 years member of the Council of the British Franchise Association (twice its Vice-Chairman).
- Recipient of the 'Companion of the British Franchise Association' recognition award.
- Winner (via Kall Kwik) of the 'Franchisor of the Year' and 'Franchisee of the Year' Awards (Kall Kwik was the first Franchise to win both awards).
- Encouraged by the Franchising community to write about own experience and views. (See letters).
- Supports, under the auspices of the BFA and Middlesex University the 'Moshe Gerstenhaber Annual Franchising Essay Awards' (awarded for Knowledge enhancement in Franchising matters).

Appendix 7.5

Definition

The Enterpriser

“A person who sets out on the path of self-employment and thereby demonstrates his desire for the rewards of enterprise and the willingness to take risk but who is not planning either to specifically develop and exploit own new technology or create new markets or to expand and build the proposed activity into a large scale business - all targets which are the domain of the Entrepreneur.”

M. Gerstenhaber

In most Franchise Systems it is preferable if the Franchisee is an Enterpriser, not an Entrepreneur.

Appendix 7.6

Franchise Definition

System Leasing

"Franchising is not an industry nor a business, it is in essence a practical marketing concept employed for the effective distribution of products and/or services. The Business Format franchising formula is a sophisticated way of doing business to the benefit of all concerned i.e. the Franchisee, Franchisor, customer and the community in which they operate. In all franchising transactions a Franchisee [a person, group of individuals or corporate body] obtains from a Franchisor the license to duplicate the Franchisor's existing and successful system of providing a product and/or service to the end user. Therefore, an alternative and more descriptive name for franchising is 'System Leasing' since the Franchisor agrees in exchange for an up-front fee and on-going fees to lease to the incoming Franchisee, for a specified period, the use of its proven system including operating methods, know-how, good-will, corporate identity, trade marks and the services of its corporate personnel. In consequence, the Franchisee is able to launch, without a demanding period of apprenticeship, an independent business fully equipped by the Franchisor from the start with all the tools which combined with hard work, dedication and adherence to the System are needed to achieve business success. The Franchisor, on the other hand, is offered by franchising the opportunity to establish within a few years a significant market share via a substantial network of identifiable outlets thereby creating a valuable economic enterprise by employing the financial commitment and business dedication of its Franchisees.

Franchising is a powerful and calculated blending of the best elements in 'big' and 'small' business. It is an effective mixture of conformity and individuality allowing the Franchisee the opportunity for self fulfilment whilst diligently following the proven Systems laid down by the Franchisor.

It should be remembered, that to establish and maintain an ethical and successful Franchise system the product and/or service offered to the public must serve a real and on-going need and offer perceived value-for-money to the end user to assure repeat business".

M. Gerstenhaber

Appendix 7.7

All the Franchise questions you should have asked

Questions and Answers

UK FRANCHISE INDUSTRY

Q: Although I am 'entitled', even encouraged, to use the fancy 'title' of 'Franchisee' I still see myself unglamorously as a small businessman working very hard to earn a decent living. Can you please explain to me why should I want to spend any of my very limited spare time on matters to do with the Franchising Industry rather than on my own business and/or family?

A: You will be pleased to know that I too agree that the prime responsibility each business owner has is to his clients, employees, 'bottom line' and family. There is no justification and I could never understand the rationale of a business owner dedicating his time to matters outside the business whilst the business itself is suffering from the neglect. Only a well managed business can become successful and remain profitable. Only a profitable business is entitled to make a claim on the limited economic resources of the community. Therefore, the simple answer to your question is that you are better off to direct all your energy to the business, serve your clients well, hire good people, offer them appropriate training, lead them by example, reap the financial rewards and enjoy the benefits of a happy and secure family life.

Yet, there are other aspects which should be considered and discussed. For example; it is my view that the combination of a good Franchisor and a good Franchisee is a wonderful way to maximise commercial benefits for all. The Franchisee still owns and runs a small business but is much more focused, better trained, better able to meet the needs of the market place and more likely to achieve higher and better standards of income let alone survive the rigorous of competition. Therefore, the 'health' and prosperity of the UK Franchising Industry is something that everyone who has a stake and an interest in the 'health' of the UK economy should be concerned about.

It has become quite clear over the last few years that 'big business' is not going to continue to be the 'repository of excess employees'. Not only have the de-nationalised industries undergone massive cost and people cutting exercises. The same process is impacting all large organisations and will continue almost unabated in part because of the introduction of new technologies into the work place. Efficiency, decentralisation and cost reduction will go hand in hand with greater investment in the fewer people who will be allowed to stay with the slimmed down companies.

This process of greater focus and constant rationalisation by the larger companies coupled with the abandonment of life-time-employment guarantees means that more people, many more people will have to take the route of self-employment. I personally believe that the best route - by a wide margin - to self-employment is the Franchising way of doing business. As the Franchising slogan says 'In business for yourself but not by yourself'.

If we agree that Franchising is a most important method of doing business and if we also agree that the Franchising industry is in fact a 'partnership' of two independent though unequal [in size] parties i.e. the Franchisor and Franchisee, the oft raised question is how do we make sure that the views and interests of the individual Franchisees too are incorporated successfully into its fabric.

Although I am convinced that every good Franchisor understands that unless his individual Franchisees are able to build and maintain commercial success his business too is not likely to thrive into the future, I would not recommend that Franchisors choose to operate their Systems without seeking the input, ideas and comments from their Franchisees. In the same way that any good commercial operation seeks the views and comments of its clients to even greater extent the Franchisor needs to extract from his Franchisees the essence of their experience, mood and expectations. Therefore, I wholeheartedly support the principle that individual Franchisees of specific Franchise Systems should be encouraged to offer some of their precious time to the benefit of the whole Franchise.

Nevertheless, I have reservations regarding the amount of time which a Franchisee should allow for these activities and in principle will always suggest that only **successful** Franchisees should even consider taking on such roles. Also, the Franchisee should never be allowed to spend time sitting on unproductive committees. The Franchisee should be ruthless about the proper employment of his time and beware the 'seduction' and illusion of corporate power. The only valid reason for a Franchisee to take on the responsibility of owning a Franchised unit is to build a profitable and valuable business. Power games or power struggles with the Franchisor could be fun and seem easier than serving the needs of the customer but are far less profitable or financially rewarding.

We seem to have come a full circle. On the one hand I am very definite that the Franchisee's prime responsibility is to look after his business and yet I am greatly conscious of the need to capture the energy, experience and expertise of Franchisees both to the benefit of the individual Franchise Systems and the Franchising Industry. This is the dilemma which has been plaguing UK Franchising for the past 15 years. How do we reconcile the fact that most Franchisees operate small even very small and rather fragile businesses with the desire to seek their input and involvement for the greater benefit of Franchising over all.

And there is a further item to consider. In Franchising like in any society it is often the view of the silent majority which is ignored or at best does not get the weight or recognition which it deserves. Often, it is a small minority of individuals with a strong personal point of view or interest which captures the limelight and the power to influence.

There is no doubt that you as a Franchisee should have a vested interest in a solid, vibrant, ethical and successful UK Franchise Industry. For one, when the time comes to sell your business you are much more likely to find a buyer willing to pay a reasonable price for it. The

question which remains unanswered is how can every individual UK Franchisee impact UK Franchising without taking his eye off the ball and, therefore, retain his full focus on serving customers? Possibly, one way forward is for the British Franchise Association to open a Register For Franchisees.

Each UK Franchisee will be invited to join. The Annual Fee will be very low say £10 - £25. In return for the fees - which could add up to between £200,000 to £500,000 p.a. if all UK Franchisees joined and paid up - the Trustees of the Register will commission a number of professionally prepared and assessed Franchise surveys every year. This means that every single Franchisee will be invited to express his/her views on a whole range of Franchising issues - issues which could have in the first place been raised by Franchisees - and through them give the Franchisors and others involved with the industry, politicians included, a wonderful, direct and effective tool upon which to build a stronger and more successful Small Business Sector in the UK. Subsequently to the surveys ad-hoc Franchisee working groups could be assembled by the BFA and the Trustees to discuss specific issues which have been highlighted. These working parties will be expected to deal only with the targeted issues, operate effectively and be dissolved after a small number of meetings in order to preserve the health of the business of the individual Franchisee. To protect individual Franchisees no single Franchisee will be able to sit on more than one working party at any one time.

Q: Why is the choice of Franchise Opportunities in the U.K. still fairly limited?

A: Altogether, I believe that there are just under 400 firms in the U.K. which claim to be Franchisors and to offer Franchise Opportunities. The British Franchise Association has 150 Members and associate Members. Although membership of the B.F.A. does not guarantee either the success of the Franchisee or the eventual survival of the Franchisor [managing a Franchise Company over time is quite a demanding task] the B.F.A. requires all its Members and Associates to undertake to abide by the Code of Ethics. I think that the existing choice offers the prospective Franchisee an interesting scope and range of business opportunities. I also agree that I too would like to see in the U.K. some 1000 excellent Franchise Companies offering a far greater range of products and services. I believe that the desired increase in the number of Franchisors will come when a far greater awareness of the excellent career option which Franchising is offering will be established. At the moment not enough ambitious and talented people with financial resources are entering Franchising as Franchisees. However, there are now some 15-20,000 operating franchisees in the U.K. Over time the individual success stories will become better known. Young people will understand that by becoming a Franchisee they will learn the secrets of being in business with far reduced risk. People will learn that you can move into Franchising and back into employment and back again into Franchising. Some will take the Franchising option after a successful career in corporate life because as we all know there are no longer life-time jobs around. I am very optimistic that U.K. franchising will become an even bigger business in the future especially if the Government and the Clearing banks would get together and contribute both commitment and money to increase awareness and confidence.

Q: Is the British Government taking the Franchising Concept seriously enough?

A: The answer unfortunately has to be a clear no. I am aware that the DTI has commissioned a preliminary report on UK Franchising in 1994 and that may well lead to a change in perception, especially if this first report stimulates further in depth investigation. However, at this point in time, to the best of my knowledge, the Government has not done anything to increase the awareness and/or the growth of UK Franchising. In fact, when the Government sponsored part of the cost of consultants to stimulate the introduction of BS5750 Franchisees were actually excluded from benefiting.

It is my personal opinion that the British Government should - jointly with the British Clearing Banks and the British Franchise Association - devise and implement financial and marketing plans to educate the British public and the UK business community to the value and strong economic benefits which professional and dedicated Franchising provides.

Q: Do you believe it would be in the best interest of the franchise sector for the UK to remain in the EU? Please comment briefly on the reasons for your opinion.

A: Franchising preferred mode for International expansion is by way of National Master Licenses. Therefore, it is unlikely that non-EU membership will have a substantial impact on the overall picture of Franchising Opportunities for the UK.

Non- EU membership, however, may have a negative effect on the supply of goods from or to the UK. Therefore, Franchise Companies which rely on the importation of goods sold (especially in the early days before significant local demand is established) may find themselves disadvantaged. On the other hand, it is likely that the EU will be more active in the promulgation of restrictive Franchising legislation which could stall the growth of UK Franchising.

Over all, my personal view is that the UK should be part of the EU. This is not only an economic issue but also one of long-term political stability in Europe. I would like the UK to become one of the core EU leaders and thereby earn the capacity to influence its future. The UK could use its experience of privatisation to guide others, especially France, to allow private enterprise to create quality jobs and new wealth. An 'inner core' UK might be able to start dismantling the EU bureaucracy and its associated costs and waste.

Q: What is the British Franchise Association?

A: The B.F.A. is a trade association which in a strict and narrow sense represents the shared interest in ethical franchising of some 150 Franchisors together supporting some 12,000 franchisees and 50 Affiliates [Banks, Solicitors, Accountants, Consultants, etc]. The main thrust of the activities of the B.F.A. has been to foster and encourage Franchisors and Franchisees alike to develop an ethical and successful Franchise 'Industry' in the U.K. The B.F.A. understands the great value of good and successful Franchising to the U.K. economy and the thousands of Franchisees which are its foundation. The B.F.A. is intent on doing everything it can to help Franchising become firmly established within the fabric of the U.K. economy and to this end has developed the Code of Ethics, the Franchise Exhibitions, the Franchisor and Franchisee of the Year Awards, and an information pack which is available from its offices. The B.F.A. is investigating at the moment ideas on how it can stimulate greater Franchisee participation and suggestions to this end from the readers would be warmly received.

Q: All politicians express their sincere desire to help create/stimulate the growth of new and meaningful jobs to counter the structural changes in employment which we have been suffering from. Has Government done anything tangible to promote UK Franchising?

A: The simple answer is no. On the other hand, we in the UK are pleased that Parliament has not burdened the industry with specific Franchising legislation. Other countries have seen the introduction of legislation or experienced litigation precedents which seek to allow the individual Franchisee much greater freedom to exit his Franchise System and still be able to remain in the same location offering the same services only under his own banner. Unfortunately, if such a practice became wide spread many companies would reject the Franchising option as a marketing concept for their future expansion and growth. Thereby, depriving many would be Franchisees of the opportunity to share in the success of a good and profitable concept.

[It should be noted here that the Small Firms Government Guaranteed Loan Scheme has been extremely useful to the establishment of numerous franchised units because it had made it possible for Franchisees with very limited equity or security to obtain funding because it is substantially guaranteed by the Government].

If the UK is to create a great indigenous Franchising industry it will be necessary for the British Franchise Association, The Clearing Banks, Government, the Professions and the Academics to get together and work together to increase the amount of capital and effort which is invested in creating Franchising Excellence and achieving greater public awareness. We don't need legislation to improve overall Franchising standards. The dishonest operator ignores the law anyway and is gone long before it catches up with him. What we need is a better understanding of the key areas of Franchising, especially, what makes both Franchisees and Franchisors meet their obligations. A greater knowledge of what makes Franchising work and a greater awareness of the business opportunity which is available to serious and hardworking Franchisors and Franchisees alike is more powerful than dry, inflexible legislation. Government could and should be a catalyst, a visionary leader with the long term mission to bring the parties together and oil the wheels of change with capital which will be used to sponsor the study of Franchising on a larger scale but also to fund on-going public awareness campaigns to increase the flow of better informed would be Franchisees. Franchising is a great tool for increasing business training and sharing expertise. It is a relentless machine which creates quality jobs and encourages the creation of wealth. The DTI has an important role to play and an opportunity to help the UK become a world class winner in the contest for leadership in the Franchising stakes.

Q: Is British Business taking the Franchising Concept seriously?

A: I suspect that it is not widely recognised that a few major UK companies are taking Franchising very seriously indeed and currently own very large International networks of Franchised outlets. In the main, this position was achieved by acquisition rather than through organic growth. For example, GrandMet are the owners of the Burger King chain which they acquired in the USA. At the same time GrandMet has invented the Häagen Daz brand and is developing a Franchise Network for its distribution. Ladbroke bought the Hilton International Franchise, Bass bought the Holiday Inn Franchise and Allied Domeq [previously Allied Lyons] owns the Baskin-Robbins and Dunkin Donuts chains. Even Marks and Spencer franchise some of their stores outside the U.K.

It is interesting to note that the Wimpy Brand was owned by Allied Lyons in the 1950's. The Brand was franchised internationally and, at the time, was probably larger than McDonalds. Unfortunately, Allied Lyons saw Wimpy as a cash cow and perhaps, did not have the vision to anticipate the value of the business given greater dedication and commitment to quality which is the McDonalds hallmark.

A few years ago the management of Wimpy acquired the Company [with the financial support of 3i] from GrandMet who in turn had bought it from United Biscuits. The new Wimpy under its owners/managers is a fast expanding Company. There are of course a few indigenous Franchise Systems which have done well both in the UK, such as Thornton and Dyno Rod, and internationally, such as Body Shop and Tie Rack.

At the same time it is my view that overall and despite the world class names which I have listed above [and there are others] British Business and the British public are not altogether clear about the true potential of Franchising. The opportunity for Britain to create quality UK jobs [stable, well paying, challenging jobs], develop a substantial group of financially successful enterprisers [the Franchisees] and an International Network for the distribution of UK goods and services is vast. The Concept of Franchising is not a simple or an easy Concept to implement successfully but it is well worth the effort. There is enough expertise in the UK to allow Britain to become - given a decision and the resources to do so - the Centre for Franchising and Franchising Excellence in Europe and second only to the enormous success which Franchising is enjoying in the USA.

Q: Should UK Franchisors voluntarily adopt a type of 'disclosure document' which will provide the prospective franchisee with some kind of uniform information about the Franchise Companies which they are investigating?

A: The answer is yes. The prospective Franchisee should be able to understand the business proposition which they might be undertaking and the background to the Franchisor Company. I am not advocating that each Franchisor be instructed to prepare their disclosure document in a specific way. However, discerning prospective Franchisees will certainly approach a number of companies before making up their mind. Once they start reading different 'disclosure documents' they will immediately be able to notice the difference in the quality of the information provided. Naturally, the professional advisors to whom prospective Franchisees turn will be able to highlight the differences in attitude and approach.

Therefore, it is my view that once a few UK Franchisors start offering a 'disclosure document' others will have to follow suit. Given time, most 'disclosure documents' will become very similar and a certain level of professionalism and disclosure will be reached. The cost of preparing a disclosure document will be significant to very young Franchise Companies, but, to some extent if they are properly managed it might turn out to be a selling tool for them.

Q: Recently, I have read an article concerning the BFA's discussions on the possibility of Franchisees being offered courses which may lead to the acquisition of a professional qualification and/or an accreditation. Can you please tell me anything about it?

A: The Council of the BFA has invested a great deal of time and thought during 1993 in trying to find ways which will enhance the benefits and value which Franchisees can obtain from Franchising. It is thought that by identifying further benefits to Franchisees it can be possible to harness their energy and presence to the advantage of the 'industry' as a whole.

Since there is no reason to assume that the BFA can teach/impart the special skills needed to operate the specific Franchise Opportunity which the Franchisee has selected better than the Franchisor himself, the aspects which the BFA can attempt to enhance are:

1. The BFA can identify general business courses which are available on the open market and prepare a well defined database for same which will be open to Franchisors/Franchisees to interrogate. [Possibly by way of the internet]. The BFA could establish a link with the Technical Colleges [TECS] and negotiate favourable terms for Franchisees and their staff.
2. The BFA can commission a series of courses which are specific to aspects of Franchising which deal with the Relationship between Franchisor and Franchisee e.g. How to build and maintain a business relationship based on mutual trust and respect. What are the aspects of the Sharing of Markets, what does it mean Division of Responsibility?

For the Franchisee and Franchisor to be able to derive the maximum of benefit from the business opportunity they need to work together with harmony and mutuality of interest. Possibly, the BFA could provide this type of training better than the individual Franchise Company itself.

Q: What is the purpose of the Franchise Exhibitions?

A: Each prospective Franchisee is expected to invest time and money investigating the various business opportunities which are on offer by the Franchise Companies. The Franchise Exhibitions are a very effective way to gain an excellent overview of the available business opportunities whilst not having to criss-cross the country visiting Franchisors offices.

Normally, a Franchise Exhibition would accommodate over 100 Franchise Companies covering a multitude of different industries. The prospective Franchisee will have the opportunity within one day to spend a few minutes with each Franchise Company. The Franchisee could also spend extra time with those companies which seem more in line with his expectations and make appointments to visit a few select Franchisors in order to study their propositions in depth. The Franchise Exhibitions are the best value for money the prospective Franchisees will have during his lengthy search for the desired business opportunity.

Q: What is the attitude of the Clearing Banks towards Franchisees?

A: Although there seems to be a great deal of interest in the welfare of Small Business and a realisation that Britain needs to support and encourage the development of its Small Business community, there is also concern that the funding currently available for Small Business is insufficient. Also, there is concern by the Banks that the Small Business owner is reluctant to invest in improving his own business skills nor offer training to his staff activity which could reduce the risk of failure of the business.

On the other hand, the Clearing Banks have been active supporters of the British Franchise Community for many years. The reason for the difference in approach is due to the fact that Franchisees are tested, selected and trained by the Franchisor. The Franchisees are provided with a business System which works, with manuals which contain the System and with training to operate the System. The Franchisor continues to monitor, guide, train and support the Franchisee. The Franchisor will also continue to analyse the business opportunity and update it to meet the changing needs of the market. It is no surprise therefore that on the whole the Banks are willing to lend to the Franchisee 2 pounds for every pound which he has to invest [subject to availability of some securities].

Q: If American franchisors are looking to this country as a 'doorway' to Europe, what will that mean to British franchising - and what safeguards will British franchisees have?

A: Any good franchisor should be welcomed to Britain. American or otherwise, and by way of a master license, joint-venture or branch operation, because it means greater opportunity and choice to prospective franchisees. If an American franchisor sets up in the UK as a first step to moving into the continent, this means that we get first look at the opportunity. British franchisees need to examine the pedigree of any franchise company whether British, American or otherwise. The decision to join a franchise system depends on the business opportunity, on the strength of the company and the quality of its management team.

Q: If a franchisor is not a BFA member, how can I find out more unbiased information?

A: Assuming that you have met the franchisor and its senior people and was satisfied with the information provided by them and met operating franchisees and was reassured that the concept does work when properly implemented the following list of contacts could be helpful:

1. Most clearing banks have a franchise department. Contact them directly or ask your local bank manager to obtain information for you. The bank, of course, will be very careful what information they can provide but persistent questioning could produce results. Also, if the franchise does not have a finance package with the bank it could mean that they are not well established or well regarded.
2. Solicitors specialising in franchising should be able to comment on the quality of the franchise either from general knowledge or by looking at the franchise agreement.
3. Many accountancy firms have people with extensive franchising experience. They should be able to offer advice by studying the financial information provided by the franchisor.
4. Franchise exhibitions are a good place to compare franchise companies. Every one is in an expansive mood and are more inclined to talk to with you.

Q: Is there any scheme or organisation that offers the Franchisee some protection - such as ABTA does for the travel industry?

A: The ABTA scheme is designed to protect the traveller mainly from being abandoned on foreign soil if the tour operator fails. There is no scheme to protect the travel agency itself [or the tour operator] from failure relating to bad management and/or adverse business conditions. The moral of the story is that owning a business always carries a degree of risk and the possibility of failure. The fact that the Franchisee is 'leasing' a proven system from the Franchisor should offer some comfort. The 'comfort' is the knowledge that other Franchisees who have followed the system have on the whole been successful. This means that should the Franchisee do likewise the chances are that he/she too will be successful. Yet, each prospective Franchisee must realise that failure is likely to happen if the individual Franchisee rejects the system and tries to 're-invent the wheel' or finds reasons why he can't meet the standards set by the Franchisor.

Franchisees should be aware that the British Franchise Association, although the Trade Association for British Franchisors, is also interested to hear from Franchisees who are able to provide tangible proof that they have not been treated in a business like fashion by their Franchisor.

The BFA will willingly question and investigate behaviour by member Franchisors which seem to contradict the code of practice for Franchisors which is written up in the Ethics of Franchising. You need to send a letter with detailed description of the business grievance and support it with documentary proof, if possible. The address of the BFA is Franchise Chambers, Thames View, Newtown Road, Henley on Thames, Oxon RG1 1HG.

SELECTING A FRANCHISE

Q: What type of Franchise is the most profitable?

A: The ultimate profitability of any Franchise Opportunity which you decide to undertake will depend for the greater part on you and your commitment to the business and to the extent that you are willing and able to understand and adhere to the Business Concepts and Systems of your Franchisor. There are sufficient examples of Franchisees earning reasonable profits from more limited business opportunities whilst other Franchisees fail to profit despite the fact that they are members of some of the high-flying Franchise Opportunities. The Franchisor can only go so far in encouraging and guiding you to meet your share of the Responsibility in the Franchise Partnership. Having said all of the above, there are, of course, Franchise Opportunities which by their very nature offer greater potential reward to the dedicated Franchisee.

The prospective Franchisee when doing his/her investigative pre-selection work should examine in depth the following aspects in order to determine the likely profit potential:

- 1.1. The track record of existing Franchisees. A Franchise where operating Franchisees are willing to disclose profit levels which are attractive to you is a good starting point.
- 1.2. You need to assess whether the business is seasonal i.e. whether the income is generated only during limited times of the year. A seasonal business may seem attractive [less work during the rest of the year!] but in reality it's introducing an additional risk factor because there could be a negative external influence during the short season which could ruin the trade. A seasonal business is more likely to be affected by the weather, fashion, etc.
- 1.3. You need to consider whether the industry is under threat from Franchised and non-Franchised competition or even competition from outside the Industry. Is technology going to play a greater role? How likely is your Franchisor going to be able to deal with the resulting opportunities and threats?
- 1.4. Look at the potential gross and net margins. Is there at the end of the day a reasonable net margin left for you? Can you meet all the operating costs from the gross margins and still make a reasonable profit? Can you offer a reliable product/service and gain repeat business? Is the business built on repeat business? If not, it may be a lot harder to build value in the business which you could sell at the end of the day!

- 1.5. Will the Franchisor allow you to sell the business [not the Franchise] at the end of the day to another approved Franchisee? [see the Franchise Agreement] In a good Franchise there is normally a good opportunity to build a valuable Capital asset which you can sell for a substantial sum. Do take this into consideration when calculating your overall benefit from the business.

Note

Consulting with a good accountant [especially one familiar with the UK Franchise Community] could be helpful to you in evaluating the Franchise Opportunities which would match your skills and financial resources.

Q: How do potential Franchisees distinguish a good Franchise Company from the rest of the bunch?

A: There are three separate areas of investigation which you should undertake simultaneously if you are to succeed in selecting the Good Franchisor. The first is the question of the Business Opportunity which the specific Franchise Company which you like is delivering. There are possibly scores of different areas of economic activity which the various existing UK Franchise Companies are attempting to serve. Some sectors are definitely a better business bet than others. But which ones? Also, when you are considering becoming a Franchisee it is a step which is likely to demand a commitment for at least 2-3 years and probably more like 5-10 years. Therefore, you need not only evaluate the current success of the product/ service/concept but also the likelihood that the market place will still want it in 10 years time. Moreover, if you were to be able to profitably sell the business which you have developed during your years with the Franchise it is necessary that your successor too is able to acknowledge [at such time] that he/she will have the opportunity to continue and develop the business and later sell it on. It is up to you to assess whether the current earnings potential of the business and in the future are likely to meet your reasonable expectations and constitute a good return for the effort and the capital which you will be investing, as well as, the risk which you will be taking. There is always a risk in business and no one should try and pretend or expect Franchising to eliminate risk altogether. Good Franchising can reduce risk but never eliminate it.

The second question which you need to ask yourself is whether your accumulated experience, prejudice, expectations, and willingness to work hard and follow the Systems of the Franchisor are in fact compatible and in tune with the needs and demands of the specific Franchisor. There is no sense in trying to ignore the facts if they are staring you in the face. If you are not willing to follow the System why join it. Furthermore, if you don't have the funding necessary for the preferred business opportunity it's better to postpone the decision unless you can get a third party to acquire equity in your business. The Franchise Relationship is a crucial element in the success of the individual Franchisee. It stands to reason that if the Franchisee does not trust the Franchisor and does not follow the System nor listens to the advice given that the risk of failure is increased substantially.

The third element in the equation is the Franchisor Company itself. It is really not that difficult to assess the quality of a Franchise Company which has been operational for any length of time if you are willing to invest the time to seek it out. You need to combine visits to the Franchisor HQ to meet with its senior personnel with visits to its operating Franchisees. All good Franchisors are very interested to

meet good prospective Franchisees. The impressions which you gain from the HQ and the quality of its personnel are very important. The place should not be plush but you need to be able to observe a professionally run operation. The people you meet need to be equipped with the skills necessary to run both their business [HQ] and the on-going services which they offer their Franchisees. The great intangible which you have to decide upon is whether the Franchisor looks like they are going to be able to continue to develop the Business Opportunity so that in years to come you and your successors and their successors have a good chance of continuing to earn reasonable income assuming you are meeting your own obligations under the Division of Responsibility between Franchisor and Franchisee. The assessment of the Franchisor's current financial status can be obtained from Company House [a recent set of accounts] and its service performance will be easy to discover from its Franchisees. These are the people who are most familiar with the level of commitment and expertise which the Franchisor is displaying in its on-going interface with Franchisees. The clearing banks and the professional advisors [solicitors and accountants] too could offer you their personal opinion and experience with the Franchisor over the years through their interface within the Franchising community.

Q: I am a student taking a business course at University. We touched upon Franchising all too briefly in class and I would like to learn more about it. What is the best course of action open to me?

A: The British Franchise Association at Newtown Road, Henley on Thames Oxon RG9 1HG has an information pack which costs £18. This pack contains the list of all BFA members, affiliates, etc as well as a number of items which help explain the Franchising Concept. The Public Library should have a number of books about Franchising written by Solicitors, Accountants or the Consultants who serve the needs of Franchisors and Franchisees. During the time of Franchise Exhibitions, Franchisors, Franchisees and Consultants offer free seminars to the attending public. These are approximately 1 hour in duration each but in the course of a day you will be able to hear a number of different speakers talking about different subjects so the cumulative total of time and information could be substantial. You could also visit some Operating Franchisees and ask nicely whether they mind spending half an hour with you to talk openly about their own experience with Franchising. The words of a successful Franchisee are probably the most valuable comments you could obtain. The words of an unhappy Franchisee are just as valuable but you need to ask the right questions in order to be able to understand for yourself the underlying reasons for the problems.

The ultimate way to learn about Franchising is to become a Franchisee of a good Franchisor. Maybe, one day following your research you'll decide to do just that.

Q: What in your opinion, makes one Franchisor better from another within a particular sector of the Franchise Industry?

A: A Franchisor Company is subject to all the 'rules' which apply to the achievement of business success. These are: excellent management, lots of hard work, a good concept, vision, a sense of mission, flexibility, desire to learn and change, understanding of the market, desire to satisfy customer needs, etc, etc. However, for a Franchise Company to succeed it also needs **additional** ingredients. Firstly, the Franchisor [the people who make up the HQ team and the shareholders] have to understand and be willing to put up with the unusual 'tug of war' which takes place either constantly or occasionally between the Franchisee and the Franchisor.

Because the Franchisee is at the same time an independent businessperson **and** a member of the Franchisor 'family' and as such expected to comply with the System of the Franchisor, there is an opening for conflicts and inconsistencies in the behaviour pattern of the Franchisee. The skills of the Franchisor in selecting, training and motivating the body of Franchisees will help reduce but probably never eliminate some of these tensions. The more successful Franchisors are those Companies which manage to combine the general business expertise which their team have with a greater understanding of the demands and commitment that the Franchising relationship requires. In addition, like everything else in life, every individual is different and each one of us has a different set of priorities. The more successful Companies are those where the sense of mission is combined with great vision and a genuine caring for the individual.

FRANCHISE BUSINESS ISSUES

Q: I am planning to buy an existing unit [a re-sale]. The Franchisor is expecting me to undertake additional investments in upgrading the shopfittings and equipment. Please give me your view whether I should comply?

A: When a prospective Franchisee has settled on a specific Franchise opportunity it is in his interest to investigate whether there are existing units up for sale. Most Franchises will have some Franchisees willing to sell [for whatever reason] especially in Franchise Systems which have been in operation for over 10 years. Sometimes the only way to join a specific Franchise in a specific location is to acquire the unit which is already in operation there. The incoming Franchisee has to decide whether he believes he can do better i.e. increase sales and thereby profitability [but also by improving operating efficiency] to allow for the costs of acquisition. If we follow the same line of thought i.e. that the incoming Franchisee should wish and be able to increase both sales and operating efficiency, it becomes easier to understand the reasons for the expectation of the Franchisor that additional investments in image and production capacity should be made.

The Franchisor is very keen to see an increase in the market penetration and market share which your unit will achieve in the location increase. The Franchisor is qualified to advise you on the type of investments which you'll need to make in order to give you the best chance to enhance the business and thereby justify the purchase price and meet your profit expectations.

The prospective Franchisee should ask the Franchisor, **before** agreeing to a final price for the business, to specify the type of further investments and costs which will be required **in addition** to the purchase price paid to the vendor. Thereafter, the prospective Franchisee can add up the additional costs and investments and decide whether the overall price is justified, taking into consideration the existing profitability of the business being sold. It is quite possible, that you will have to reduce the price which you are offering to the vendor. Remember, the profitability of the current business may be in part because the original finance has been repaid or the vendor's family is working there and are not being paid a market salary. When buying a unit you are paying mostly for what the existing Franchisee has achieved and not for the full potential of the business which you are going to try - through hard work - to exploit.

In summary, it is essential that you listen to the advice of the Franchisor regarding the upgrading of the business because only with the additional elements you are likely to have the package necessary to give you the opportunity to exploit the current market and the current

trends. In addition, you should put money aside every year to accumulate resources for further capital expenditure which will be required in the years to come. Enjoying and building the business is an on-going process.

Q: Why shouldn't I expect my Franchisor to guarantee my success? After all, what do I pay him the Franchise Fee for if not for the guarantee of the success of my business?

A: This type of statement and the personal expectations which it expresses, are a clear indication that the writer does not understand the 'division of responsibility' which is at the heart of the Franchise Concept. In addition, the writer demonstrates a degree of commercial 'naivete', which should be addressed immediately.

The Franchisor offers interested individuals the prospect to join his Franchise System and utilise the experience gained in delivering a specific 'business opportunity' to a specific community. The Franchisor will License/Lease to the Franchisee the use of his Operating System and offer training and guidance on how best to develop the specific market where the Franchisee has chosen to operate. **Everything** that has to be done in the local market is then dependent on the Franchisee. The Franchisor obtains only a small percentage of the sales turnover which is transacted by the Franchisee and can not even be expected to have an on-going physical presence within the local business in exchange for it let alone guarantee it. The success of the individual unit is fully dependent on the Franchisee himself. A good prospective Franchisee will invest a great deal of time, effort and money in evaluating the various 'business opportunities' and the numerous Franchising Companies offering them. A good, dedicated, hard working, ambitious Franchisee who has matched himself with a good Franchisor operating a successful 'business opportunity' will not talk about the need to seek the guarantee of the Franchisor. The Franchisor and Franchisee share the burden of the success but it is the sole responsibility of the Franchisee to utilise the System in identifying, serving and meeting the needs of the customer in the individual market place.

The on-going Franchise Fee which the Franchisee is paying either every week or month, is intended to fund the Franchisor's HQ activities which include R & D, training, marketing, support services and its profits. The on-going Franchise Fee is not a direct insurance premium for success. The good Franchisor will use much of its income to re-invest in the business and offer the good Franchisee the opportunity to improve his skills and operating methods so that he can offer his customers more value for money.

Q: My Franchisor insists that I invest fresh funds in a new corporate design and identity pack. Considering that I have adopted his new corporate identity only a few years ago I would rather invest my resources in additional equipment which is income producing and not in presentation and image aspects which are not. What is your advice?

A: Whilst you have my fullest sympathy I am afraid that in principle I support the view that investment in Corporate Identity and Corporate Presentation is just as important and on-going as the need to invest in training and educating employees and in the acquisition of new production capacity.

Building Brand Equity is a complex, on-going and very fragile process. Business becomes and remains successful only by providing the customer with a product or service the customer needs and wants and is willing to pay the price asked because he/she perceives that they like the overall proposition and obtain sufficient value for money. If we analyse this statement further it becomes clear that each 'customer proposition' is made up of a number of independent component parts. For example, low prices would not necessarily bring either more customers and/or higher revenue. Many products and services do not benefit from a high price elasticity of demand. In fact, there are plenty of examples where cutting prices results in loss of business. Customers prefer to receive Added Value and Value for Money and most of the time this does not mean lower prices. Each business has to create a positive identity and a clear corporate image which needs to dovetail with its current and future strategy. Your Franchisor would be failing you if he did not continually address these aspects of the business. Some of the planned changes will be small and relatively inexpensive. Other developments will need to be substantial and require significant investment. Sometimes, because of changing tastes and/or technology the business brings it has to be substantially re-designed and re-positioned or it will be unable to attract the new type of customer it must acquire to replace the lost client base. Failure to be fast-footed and nimble today is likely to mean eventual failure.

On the practical side it is important that your Franchisor takes professional advice as well as seek input from its Franchisees in order to minimise the cost and maximise the benefits of the required investments by the units. The bottom line is that a far sighted business person understands that it is necessary to put money aside so that it can both purchase the equipment it needs to produce the goods for the customer and also be able to update its Corporate identity and image proposition. Both investments when carried out professionally produce revenue and profits.

Q: I have a successful business but I feel like doing more. Should I buy another Franchise? Should I buy the same business or try something else?

A: Running and operating more than one business requires a Different set of skills. Furthermore, the overall risk factor [and in every business including a successful one whether Franchised or not there is risk] increases substantially. When you operate one business you can be everywhere. Even if you delegate in a small business your finger is on the pulse and you can tell in a glance how well the business is doing. If you expand it's likely that you'll need managers in both businesses. This factor alone will increase your cost base substantially as well as multiply your risk exposure.

Nevertheless, many people have successfully operated more than one Franchise. Therefore, your question is a legitimate one. However, it is possible to approach it from a number of angles.

The most natural expansion would be to acquire another Franchise from your existing Franchisor. Afterall, you know the business and it should be easier for you to undertake the expansion. You could establish a new territory or you could buy an existing unit which is either doing well [this will mean a premium] or you could buy a problem unit and turn it around. There is a logic to buying a unit which is fairly close to your existing operation otherwise you'll have to spend unproductive time travelling to and from your two units.

You could sell your existing unit and either buy a larger area from your existing Franchisor [a problem unit and an adjacent market for a second operation - for example]. Alternatively, you could even decide to re-examine the market and see whether Franchising today is offering business opportunities which either did not exist when you started or which were too expensive for your financial resources then. Franchising today has a lot going for it. You are now not only better funded but also more experienced. Maybe, you could find a far more rewarding Franchise opportunity. A Franchise which will offer you more profit as well as more challenging personal opportunity.

Q: I have a son who wishes to join me in my Franchise with a view to buying the business at some time in the future. What is the attitude of my Franchisor likely to be?

A: All good Franchisors want to have excellent Franchisees in each one of their units. Therefore, if your son turns out to be an excellent prospective Franchisee there is no reason to fear the response of the Franchisor. Nevertheless, it is correct to recall that the Franchisor has the right to vet all new Franchisees whether they want to establish a new unit or take over an existing one. In the event that a member of a family wants to take over the existing family unit the good Franchisor should apply exactly the same criteria as he does for new Franchisees. For the System and the other Franchisees it does not make any difference if the 'bad' Franchisee is a son of an existing good Franchisee or an unrelated newcomer.

On the other hand, your son will have the advantage of immediate access to extensive on-the-job-training. This means that you should offer your son the opportunity to receive as much training as the Franchisor is providing either at HQ or elsewhere and whatever instructions you can give him on the premises or even arrange at other Franchised units. Some Franchisees neglect training or undervalue the importance of training in the build up of the skill base of their employees. The fact that your son was very well trained and given an opportunity to prove that he is an excellent employee in the business will certainly enhance the likelihood of the Franchisor accepting him as your replacement - when the time comes. On the other hand should your son prove to be a lazy and unreliable employee with an attitude problem the fact that the Franchisor will have an opportunity to observe these traits will make it more difficult for the son to be accepted. However, I would not have expected a father to want his son to take over a successful business if he was not sufficiently well qualified to succeed. Another alternative for the talented, ambitious and hardworking son is to purchase - with your full or partial funding - a second or even a problem unit which he could develop himself with the skills which he has acquired working together with you. This arrangement will mean that you will be able to sell your unit on the open market for its full value, your son will be a member of the Franchise in his own right, enjoying the fruits of his own labour and your investment or funds at risk will be a fraction of the value of your successful unit. The Franchisor will have had an opportunity to assess your son and give him the go ahead to purchase the second unit.

Q: We are a fairly young and successful Franchise Company but we are experiencing a difficulty in getting the Franchisees to participate in the training and educational activities which we make available to them. What can we do to change this attitude of the Franchisees?

A: The daily pressures and demands of the business draw so much energy from the Franchisee that even the thought of having to make time to undertake additional training is a difficult one for him to contemplate. Franchisees agree that additional skills training and/or System training are valuable and beneficial to the business. In fact, most 'small business' people think well of training and education but in practice do very little about it. Therefore, the Franchisor has to make sure that the training on offer is both appropriate to the needs of the business and of good quality. One way to add to the credibility of the training on offer is to consult with the Franchisees and ask them which courses they wish to have and which subjects seem to be of the greatest priority. The input from the Franchisees is very important because it will let you know what the perception of the need in the Franchise is. Naturally, the Franchisor may also wish to offer additional training which he knows is needed for the future. But, if the Franchisees are not made aware of the underlying reasons it will be difficult to get them to commit their time and money. Franchisees are also reluctant to travel substantial distances to the training venue. The same applies to their willingness to commit their staff to travel. Therefore, if the Franchisor can organise local training groups [it is easier and more cost effective for the larger Franchisors] there is a greater chance of Franchisee participation and success.

The overall message has to be that the Franchisor cannot simply abandon further training and education because of lack of 'vision' by Franchisees. The future of the Franchisor and its Franchisees profitability is tied to the implementation of an on-going programme of improvement. Therefore, the successful Franchisor will be the one who succeeds to communicate to the Franchisees the above message and gets them to agree - willingly - to commit their time and money to quality and relevant training and educational activity.

Q: What is the most practical way for our Franchise to benefit from the practical experience which has been gained and accumulated by the Franchisees over the years?

A: The Best Practice experience which has been gained by the operating Franchisees is extremely valuable. Every good Franchisor has to try and capture it. However, this may not be as simple as it sounds. Individual Franchisees are not always aware of the slight nuances which they have developed within their own Operations.

I am assuming that on the whole each Franchisee is following the Systems as prescribed by the Franchisor. However, even when operating standard equipment one finds ways to achieve greater efficiency through some operating practices. Sometimes, ways of approaching customers, ways of storing supplies, etc. can enhance productivity and profitability.

The Franchisor's field people have to be encouraged [by the Franchisor and Franchisees] to be on the watch for all Best Practice which they can observe and to capture the relevant information. It is up to the Franchisor to assess the information, possibly test it with a few Franchisees and if proved to be correct incorporate it in the System and advise the whole body of Franchisees. It is also very positive if the Franchisees themselves try very hard to capture such Best Practice. Each individual Franchisee could contribute if only he/she were keen on the idea and willing to write information down and send it to the Franchisor.

Q: I am not happy with the quality and range of supplies which I am expected to buy from my Franchisor. What can I do?

A: The situation which you are describing could become a very serious one if not managed quickly and with great skill. In many Franchise Systems the product which the System distributes to the end user is provided by the Franchisor. In such instances the Franchisor assumes a great responsibility. A failure by the Franchisor to understand the changing needs of the end-user will eventually result in the demise of the Franchisees and the Franchise; if it persists for any length of time. If in addition the Franchisor fails to supply the quality which is expected by the end-user or is unable to maintain consistency of product quality and/or supply, the Franchisee will lose the confidence of the customer and fail to generate the level of sales required to meet the costs and achieve the profits.

I am assuming that you are not alone within your Franchise System who is holding such a view. Therefore, the best way to move forward would be to organise a group of successful Franchisees who will seek to go and meet the Franchisor. It is best if you collect data which you can present to your Franchisor and which will substantiate your views. Possibly, the Franchisor has other data which may be different to yours. You need to sit down quietly together to discuss the aspects which are causing you anxiety. Hopefully, the team at Franchise HQ will be receptive to your input and will agree to implement some or all of your suggestions. On the other hand, if the Franchisor is convinced that the current policy is correct, it is important that you and your colleagues listen carefully to what they have to say. If after all the exchange of views the Franchisees and the Franchisor are still holding to conflicting views try to persuade the Franchisor to agree to one or two test sites [Franchisees] where your suggestions could be tested. The best way to prove a concept is in the market place. If the business and profitability increases [both for Franchisee and Franchisor] there is every likelihood that the Franchisor will agree to adopt this valuable input from the troops.

Q: I am convinced that the idea of franchising is a great one for franchisees when they start because they get the systems, training and support they require to set up the business and enjoy quicker and greater success. What I don't like is the obligation to pay the fees forever. Are there franchisors who reduce or eliminate the fees in later years?

A: Successful franchisees love franchising but very few enjoy paying the ongoing fees. The fact that people don't like making regular payments for an abstract concept is one we should recognise and tackle through education and communication.

Of course, there are franchise companies which have accepted the continuing pressure by franchisees to reduce fees and are presenting this concession (which could be until a certain level of turnover is reached or for a specific period of time) as an aid for new franchisee acquisition. This means that the message they are conveying to prospective franchisees is that when selecting a franchise opportunity they are better off opting for the one which offers you a reduced ongoing fee structure.

I do not agree with this approach. I believe that it is in the interest of the franchisee to be part of a franchise system where the franchisor company itself is a very profitable and successful one. Only a successful franchisor will have the resources to invest in developing the business opportunity and will want to do so because they know that they will continue to enjoy a secure and growing income stream.

If the business opportunity does not allow the individual franchisee enough income to make the investment in time and money worthwhile they **should not** join the franchise. The extra income from the reduced fees should not be the icing on the cake. The business opportunity should be strong enough to encourage the individual franchisee to invest more in the business (time, equipment, training, marketing) and through these, increase his net income and net worth.

Q: Considering that every Franchisee owns an independent business operating under license can the Franchisor request me to enter into binding National Contracts with customers?

A: My reply to this very interesting question will be given from an operational point of view rather than the strict legal position which is clearly substantially different. My interest is in exploring those aspects which are relevant to the establishment of a successful and profitable franchised business. Every Franchisee who thinks only about his/her own unit and ignores or actively disengages from the Franchise System which they have joined fails to capitalise on some of the benefits of Franchising and at the same time lets down both his fellow Franchisees and Franchisor.

It is true that locally i.e. within the assigned or operational territory, the Franchisee is responsible for developing the business opportunity and for giving the clients the quality service which a business must provide in order to survive and thrive. However, each individual Franchisee is also an important link in the chain of the Franchise System which he has joined and needs to act in a manner consistent with a larger body of units and business activity.

One of the many stated advantages of being a Franchisee in a successful Franchise System is the ability to benefit from the larger size of the overall business. There are opportunities for economies of scale in purchasing and advertising, the established brand equity and the availability of business from larger clients who may be unwilling to do business with a 'mama and papa' entity.

A larger client, say an insurance company, with a national distribution of its own offices and a substantial nationally distributed client base would always negotiate centrally for a nationally provided service if the option is present. The reasons are very simple; it is cheaper to negotiate with one party and obtain a service from say 100-200 locations, than having to negotiate independently with all these service providers on their own. In addition, what the larger client expects is a consistent service, dependable delivery to an agreed standard, at a uniform price. It probably means, too, that because the client is able to offer a large quantity of work that it will try to negotiate on price and demand group volume discounts.

As far as the individual Franchisee is concerned, the view from 'his side of the fence' is one of a Franchisor arriving with a proposition which dictates turnaround time, quality, reliability expectations and a discounted price to boot. The Franchisee feels instinctively like telling the Franchisor to go away and mind his own business.

As attractive as it may seem to the individual Franchisee to be able to say to the Franchisor that he is not interested in nationally negotiated contracts, my view is that unless a National Franchise is in a position to offer such advantages both to its Franchisees and clients in the world as it is in 1996 the future security and growth prospects of the Franchise may be at risk.

Distribution Chains which are non-franchised will be able to offer the market place national contracts which specify all the elements which the client desires and as long as they are able to deliver they will have a substantial commercial advantage over the Franchised chain where the individual Franchisees refuse to undertake National Contracts themselves. The owned-chain will make a profit on the business, will be able to use the National contract as a testimony to its professionalism and employ this information in its marketing and sales activity. Furthermore, the greater discipline which the demanding and professional client brings to the business will help upgrade the overall professionalism and delivery of the supplier itself and 'force' it to become more efficient and profitable. The bottom line is that Franchise Systems must be able to capitalise on their relative strengths i.e. the dedication of the individual Franchisees to their own businesses in the various markets and at the same time combining all their Franchisees to deliver a uniformly high quality service throughout the country. Otherwise, Franchise Systems will in fact find themselves **inferior** and disadvantaged vis a vis substantial company-owned competitors with a distribution network to match.

Franchisees should try to resist falling prey to the feeling that they must withhold co-operation from their Franchisor's vision and System. The strength of Franchising is in its ability to build critical mass fairly quickly. Thereafter, this mass has to be used constructively to carve up an ever increasing market share.

One way to help the Franchisor in the process of negotiating and setting up profitable National Contracts is for a group of successful Franchisees to join forces with the Franchisor and accompany the HQ representatives when they are negotiating the terms and conditions. After all, the Franchisees understand the market and their Systems' ability to deliver a quality product at a specific price. The Franchisees contribution will be invaluable. The only obstacle I can envisage to the success of such co-operation is when the individual Franchisees continue to think independently of the System and fail to recognise the overall long term benefit to them which can be derived from capturing more demanding business.

Q: Do you agree that there is an argument for the Franchisor to reduce the on-going fees payable by a Franchisee once certain levels of pre-determined performance are attained?

A: My reply is a very clear No. However, as a Franchisor, one might ask, why should I say anything else? Nevertheless, in my professional view the concept of reducing fees is not a good base for a healthy long term business relationship between the Franchisee and Franchisor.

A successful business partnership [which franchising should be] has to be based on a sound commercial concept which offers a value for money service/product to the end user and a good profit opportunity to both Franchisee and Franchisor. In order for the Franchisor to be able to continuously develop and extend its Operating System, maintain and enhance the quality of support and service provided to its Franchisees, invest in Research and Development, hire, train and motivate a good body of HQ people, and enjoy a good rate of return on its effort and capital employed it needs to be assured of a continuing and growing stream of income. In the same way that the potential reward to the Franchisee is only limited by his/her own effort the Franchisor's return from the Franchise should not be limited by anything other than their own efforts. Practically, it's difficult to establish a simple formula to operate a reducing fee structure: is it to be a flat sum which will be eroded by inflation or will the Franchisor and Franchisee go into a huddle every month/quarter to negotiate a new figure? Will the Franchisor set the figure when the Franchise is established and destroy the System because it will never have sufficient cash flow to meet the potential of the business or every 6 - 12 months set the levels again and unsettle the body of the Franchise every time? However, the most convincing three arguments in favour of **not** adopting the reducing fee structure are:

- 1.1. The 'business opportunity' which the Franchisee wishes to exploit belongs to the Franchisor who is inviting the Franchisee to 'share' a specific market with him. The System of the Franchisor will make it possible for the diligent Franchisee to earn a decent living and excellent capital gain by employing it. The Franchisor too should be able to look forward to great financial rewards.
- 1.2. It is in the interest of both the Franchisor and Franchisee that the Franchisor has sufficient resources to continue to expand or at least protect the 'business opportunity' in the years to come and to do this the Franchisor needs a great deal of funding.

- 1.3 The reducing-fee argument normally applies to the higher sales levels of the Franchisee. At this stage of his activity the Franchisee should be achieving higher rates of net margins, therefore, the additional profit which will result from the reduced fees will not be needed to assist the business to survive, it's simply another way of increasing profits to the benefit of the Franchisee and at the expense of the Franchisor and the long term prosperity of the Franchise overall.

Q: What can I do as a Franchisee if my Franchisor refuses to stop others from using our Brand name?

A: It is certainly the obligation of the Franchisor to determine and define the scope and integrity of the Brand and the trade/service marks which represent the Franchise. I can't understand why your Franchisor is failing to do so. I can only speculate as follows:

1. Your Franchisor does not consider what the third parties are doing an infringement of the Mark. Your Franchisor can be correct in his interpretation. You could ask the Franchisor for the reason and whether he had taken appropriate legal advice.
2. Your Franchisor can't afford the cost involved in taking the proposed action. Would the Franchisees be willing to assist by contributing funds towards the action?

Have you spoken to the Franchisor about your concerns? The best way to deal with possible areas of concern is to meet with the Franchisor and discuss openly your views. Hopefully, the Franchisor will be able to explain to you the rationale behind the line of action which he has decided to adopt.

Q: I have read somewhere that one UK Company which started its life by Franchising most of its retail outlets now has only about 10% of its network operated by Franchisees. Why has the Company changed its approach? Is it legal for a Company to act in this way?

A: As far as I know it is harder for a Company to start Franchising its business than it is for it to reduce its commitment to Franchising. Any Company which has a successful business format and wishes to embark on a speedy expansion programme should examine the Franchising option. By recruiting Franchisees the Company will be able to capitalise on the funding which is provided by the Franchisees and in theory be in a position to offer the customer better service [through the commitment of the Franchisee] whilst cutting down on the costs associated with the supervision of the distribution chain. However, by sharing the Business Opportunity with the Franchisee the Company will also reduce the gross income which it will generate from the business in each location/market. Therefore, once the Company has established itself and if it decides that the Added Value which it seems to be achieving from the involvement of Franchisees does not match the reduction in income it may decide to stop Franchising altogether or reduce it. The shift of direction does not necessarily mean that the Company will ask existing Franchisees to leave. The change could simply take place by reducing the percentage of Franchisees in the network through the opening of Company owned units. In addition, the Company could decide to buy the business of existing Franchisees and it is up to both parties to agree a commercial price.

Naturally, a Franchisee who joined a Company which was predominately a Franchised one may feel lonely within a large network of Company owned units. This change is not likely to impact the Franchisee negatively as far as the business is concerned because a successful Company owned chain will have more funding for product development and publicity but the Franchisee may start to miss the extended - family feeling which every successful Franchise System has. As far as I can recall this development is a fairly rare one. Today more and more large Companies with a large estate of Company owned operations are taking the route towards inviting Franchisees to join them.

Q: Will I get a better return on my investment and personal effort from establishing a new outlet or by buying an existing Franchise Unit which is up for sale?

A: The profit or rate of return on an existing business will depend on a number of aspects, i.e. the price which you paid for it (the multiple of profit), the existing customer base, the further potential of the local market and the speed with which your own skills and energy will contribute to the acceleration of the growth of the business. All the above elements could be entered into the Franchisors Spread Sheet and the estimated projected 'bottom line' obtained. Buying an existing unit can be a very good alternative to starting from scratch. However, buying a successful unit is likely to require a lot more equity investment from you. Therefore, it does not necessarily mean that establishing a new franchised unit is less profitable for you than purchasing an existing business.

Q: What are the personal characteristics needed to become a successful franchisee?

A: To become a successful businessperson utilising the franchise formula the prospect needs to possess a strong desire to succeed coupled with the ability to set targets and then proceed with diligence and dedication to achieving them. The good prospect will have lots of energy and staying power. But, above all the franchisee will understand the value of the systems which 'make' the franchise concept he has joined and therefore be dedicated to building the business by following these systems and utilising all the tools provided by the franchisor.

Q: There appears to be a new trend for large firms to lease their existing outlets to franchisees. We are being offered pubs, petrol stations and hamburger restaurants. Can these businesses be truly considered as business-format franchises and do they offer the advantages that we are told to expect when we buy a franchise?

A: In principle the entry of substantial and responsible national and international firms into the UK Franchise field should be welcomed, as long as, the business proposition allows the prospective franchisee a satisfactory profit opportunity.

At the moment it is a fact that some large companies are testing the UK market to see whether a Franchise type relationship will bring their way a more motivated individual than the employed manager or even the self-employed tenant. I am hopeful that these 'institutions' will realise that a simple change in 'title' will not motivate the individual to better results. The reason quality 'business format franchising' works is because the relationship and the balance of benefits are tipped in favour of the Franchisee. The Franchisee - the one who chooses to follow the System - should be able to earn a satisfactory reward for his effort and capital commitments. There is no reason why a Petrol Station Franchisee will not succeed as long as there is an opportunity for the committed and skilled franchisee to add-value and capture the business. There must be sufficient margins left for him to justify the long hours and the financial risks. Small or large Franchisors should not try to take advantage of individual franchisees not only because it is unnecessary and unethical but also because it's bad business in the long term.

The question that a prospective franchisee considering the 'leasing' of an existing business should ask himself is, 'what do I need to do to change the business and improve its profitability in order to meet the expectations of the Franchisor and my own ambitions?' A follow-up question would be 'what resources and skills is the Franchisor going to invest in both myself and the System to make me confident that I can meet the challenges of building the business and gaining the desired benefits'.

The prospective Franchisee needs to understand the reasons for the past, possibly poorer performance of the Unit under the previous arrangement to be convinced that it is within his powers [taking the cost/earnings elements into consideration] to add enough value to transform the business. The Franchisor should be able to demonstrate that they understand the subtleties of the Franchise Relationship and are authorised by Senior Managers of the Company owned operation to invest in a sufficient level of support activities.

GENERAL BUSINESS ISSUES (AS SEEN BY FRANCHISING)

Q: I am having a Cash Flow problem. What is the best way to deal with the situation?

A: Cash Flow and Cash in Hand are the most crucial financial aspects of any business. There is little solace in knowing that a business is profitable if the money is not available to meet the payroll needs or to pay your suppliers.

The answer to your question is quite complicated and would depend on the nature of your business. I will try to highlight a few aspects but would like to urge you to speak to your accountant without delay. It is also imperative that together with your accountant you prepare a presentation to your bank manager. It is a pity that you have waited until the business is suffering from cash shortages. It is far better to speak to the bank in advance of the crisis stage. Bank managers are much happier to continue to support business people who use the business tools which are at their disposal and can forecast temporary cash problems rather than help the business person who discovers the problem when his cheques start to bounce.

If your business is one where you have to offer credit facilities you need to be careful how much credit you grant and to whom. Also, you must collect on due dates. Credit Control and collection require training so take professional advice.

I would have hoped that your Franchisor will have given you guidance on aspects relating to your Business Plan, Credit Control and Collection, how to deal with your Bank Manager, etc. Are you sure that you are following the Operating Systems of your Franchise? Are you sure that you have confided in your Franchisor about your problems? I am confident that your Franchisor will be eager to offer you guidance. But, it's up to you to operate your business effectively and in line with the Systems provided by your Franchisor.

Q: Is location of a Franchise outlet necessarily a main factor for success?

A: In many of the 'fast food' businesses location is of crucial importance. However, even within the 'fast food' sector, for example a Pizza business, location might become less important because of the 'home delivery' aspect of the Concept.

In 'designing' the business concept the Franchisor will take into consideration such aspects as rent and rates costs and try to balance them with the value of 'traffic flow'. However, the Franchise Concept which you are considering should be able to demonstrate that its existing units are successful. Therefore, the type of positioning which is working for them [the specific franchise] is the kind of locations which you will have to find. In most good Franchise Companies the Franchisor will take a very keen interest in this process. In fact, it is likely that the Franchisor will employ, on your behalf, estate agents which are briefed to find the necessary outlets.

When you are joining a successful franchise you are privileged to the extent that you are able to duplicate the existing concept. Question the Franchisor and operating Franchisees before you sign. Seek to understand the Franchisors' rationale before you sign the lease but remember that the reason you have joined the franchise is because of the proven expertise of the Franchisor.

Q: The last thing I want to do at the end of a long day running the business is to keep the books. Am I unique in hating all the administrative aspects of running a business?

A: The simple answer is that you are not unique. It is said that the single most important reason for the failure of small business is the fact that they don't manage it properly. I can also tell you that some people find selling even harder than keeping the administration of the business on track. But, in this case two negatives don't amount to a single positive. Therefore, a strong word of warning: get your act together. Speak to your Franchisor and ask your contact person to take you through the System once again to clarify the procedure. If, however, you are sincere in your aversion to keeping the books either hire someone who can do it well and in accordance with the procedure laid down by the Franchisor or put your business up for sale, before you find out you have nothing to sell.

Q: After opening my Franchise Unit, I expect to get into some 'teething trouble'. What might I expect to have to overcome and how can I best deal with it?

A: All independent start-up small businesses [and probably most large new businesses] are constantly on the watch to assure that they have managed to come up with a format which successfully delivers to the customer a product and service which they are willing to purchase. This is the supreme worry of all businesses. If any business fails to meet this responsibility it will speedily run out of money and will fail. It will not even have sufficient time to worry about the other aspects of running a business i.e. the management of its personnel and its financial affairs.

As a Franchisee of a reputable Franchise System you need not have to worry about the Concept nor the Business Systems. The Franchisor will have developed these and will have trained you in their exploitation.

The greater risk which is facing the Franchisee is not so much in identifying the market place but rather those risks which are more related to himself. As a Franchisee you are expected to learn the System and to operate it to the full. Your responsibilities will be to hire the employees which will work with you, to ensure that they have the skills and the training necessary and then together to capitalise on the System and build the Customer Base. The product and/or service which you offer to your customers and its integrity is your responsibility. The only 'teething' troubles which you can have arise when you decide not to use the Systems as provided and fail to communicate to the Franchisor your views and actions.

The best advice to new and existing Franchisees is always follow the given Systems and don't try to 're-invent the wheel'. Share with your Franchisor every doubt which you have right away so that the HQ personnel can help you make the adjustment necessary to return to the Systems. I assume that you have done your 'homework' before joining the Franchise and were satisfied with their track record. Therefore, don't expect or create problems. Just follow the System with energy, commitment and focus.

Q: I would very much like to become a Franchisee but my funds are too limited for the required investment. What can I do to bridge the gap?

A: There is a difference between having assets and liquid funds. If you have no assets at all it will be very difficult for you to join any of the Franchise Opportunities. However, if you have equity in your house [or other real assets] you might be able to borrow by pledging them as security. One way forward for an ambitious enterpriser without the financial resources is to find a partner/investor who'll agree to back him. Alternatively, you could seek work with a successful Franchisee and by demonstrating your ability to run the business either acquire a share in the business from the increased profits or be given the opportunity to acquire shares - from profits - in an additional Franchise which the owner will invest in. If you have some capital but little assets to support bank borrowing you might qualify for a Government Guaranteed Loan under the Government Scheme. This arrangement is a life line to many prospective franchisees and most of the Clearing Banks make it available. This scheme is not designed to allow people to shelter their assets from the risks of business. You'll be expected to pledge all the equity which you'll have in the home but the shortfall might be guaranteed to the tune of 70-80% by the Government.

Another way to build up your wealth is to start with a lower entry cost Franchise and through high success invest the increased equity in a more expensive but potentially more profitable Franchise. If you are young enough and very ambitious you could over a period of say 20 years probably become a Franchisee of 3 different systems and manage to have both very interesting and financially rewarding career.

Q: I am working for a successful Franchise Company and would like to become a Franchisee. Unfortunately, I have very little cash. Can you tell me what to do?

A: Franchising is about offering an alternative career option to individuals. An option which when successfully exploited leads to a greater development of personal skills and often to a substantial increase in the financial well being of the Franchisee. It can be frustrating for employees of good franchise concepts to realise that they are witnessing [and assisting] the creation of wealth by others. It is healthy to see employees of Franchise Companies taking on the license to duplicate such success for themselves. It is relevant to note here that it is not enough to be 'envious' of the success of Franchisees - it will take a great deal of hard work and dedication to duplicate such success for one self.

You write that you do not have sufficient cash? Does that mean that you have assets which could be either sold or mortgaged? The Government Guaranteed Loan Scheme has been designed to assist good people with limited financial resources. Nevertheless, the banks are concerned [and for good reason] that individuals do not over gear themselves. Therefore, the banks will want to see a substantial equity investment by the owners of the business. This means that you could assemble an investor group [family, friends, business angles etc,] who might be willing to put up cash and back your talents, ambition, propensity for hard work and good business sense. The partnership agreement should allow you an opportunity to acquire equity from profits. This could mean that eventually the majority or even the whole business will belong to you. May I suggest that you speak to a senior manager in your Franchise Company to find out whether the Company has a scheme to assist excellent employees take the route to ownership. I also recommend you speak either to an accountant, lawyer or your bank manager to assist you understand the extent of the commitments which you are considering.

Q: I would like to become a Franchisee but I know I lack both financial resources and business expertise. What is your view of partnerships?

A: The concept of sharing risks and augmenting financial and business expertise is an attractive and sensible one. Even a good Franchise System cannot be expected to be able to guide a weak Franchisee to success. Therefore, each Franchise System has its own requirements regarding the personal experience and financial resources which are needed from the individual Franchisees in order for them to build a successful enterprise.

Successful business partnerships are not easy to establish and even more difficult to maintain over time. Any business, even a franchised business, experiences trials and tribulations which put strain on partnerships. There is no sure recipe to achieving a successful partnership, however, the following points could be of some value. Since you are looking for an active partner you need to select someone with the required financial assets as well as the business experience and the right attitude. Attitude is the subtlest personal attribute to assess. For a partnership to work each and every partner needs to offer the business his maximum attention and dedication. In addition, a spirit of tolerance combined with professionalism should be the guiding light to the relationship between the partners. Ideally, roles and responsibilities will be allocated [and possibly reallocated] and partners management meetings used to discuss objectives and personal accountability. The fact that your business will be operating under the Franchisor umbrella will be beneficial because the HQ personnel could contribute by way of personal counselling and guidance.

Q: A friend of mine has invited me to invest in his proposed Franchise Venture. What do I need to do to minimise the aggravation and maximise the benefits?

A: I am assuming that you are thinking of becoming what is referred to as a 'silent investor' i.e. you will be providing some or even most of the funding for the venture but will not take an active part in the day to day running of the business. The Partnership relationship is never easy to maintain unless all the terms and conditions agreed between the parties are clearly spelled out in a document called the 'Shareholders Agreement'. I believe that investing in a Franchised Unit is a far safer route for the 'silent investor'. The knowledge that the Franchisee has at his disposal a business opportunity which is proven in the market place, a System to operate, and the back-up of the Franchisor's training, marketing and other HQ functions is very good news for the investor. The 'silent investor' has to make sure that the business opportunity which is being proposed and the Franchise Company meet the business standards required and that the profit expectations can be achieved through the Franchisees' efforts. It is also essential that the Operating Franchisee will have a sufficient stake in the business to make it worth his while to build it to success and also that he has the authority to run the business, manage the staff and interface with the clients and the Franchisor.

Q: I have just sold my business for a tidy sum and am no longer a Franchisee. However, I was wondering whether as a retired Franchisee there is something useful I can do within franchising?

A: Firstly, please allow me to congratulate you on achieving what most businessperson sets out to do i.e. build a successful business and eventually sell it for a capital profit. Business is about giving value to customers and creating wealth - evidently you have succeeded. Well done.

I can think of a number of options which are available to you. I am assuming that you are no longer interested in being engaged full-time in the running of any business. Because, if you were you could - of course - take up another Franchise possibly in another industry.

The most attractive option for you would be, in my humble opinion, to act as an investor/partner in new Franchisees within your 'old' Franchise. I don't know to which specific Franchise you 'belonged' but I assume that there are good people who are approaching the Franchisor but are rejected because they simply don't have the finance required. You know the business and you know what type of person is needed to meet the requirements of the Franchise. Why not become a partner with one or more such Franchisees and help them both financially and with expertise to become successful. You could agree with them upfront the terms which you will expect in order for them to buy you out. If you plan to take this course of action make sure you have the agreement and support of the Franchisor and seek the input of a good solicitor and accountant. If you don't want financial involvement you could offer your services to your 'old' Franchisor as a holiday relief person for Franchisees or even a 'trouble shooter' on behalf of the Franchisor. Naturally, the Franchisor is only likely to want to be associated with you if they think that you operated your unit in accordance with their Systems and are satisfied that you'll project a good image for the Franchise and encourage the Franchisees to co-operate with the Franchisor and operate the systems as prescribed.

Q: You hear and read a great deal about the wonderful benefits which can be gained from owning a small business. Can you please detail the potential negatives and downside risks.

A: Since at least half of all new businesses are 'gone' within a few years, you are quite right to ask about the risks and the downside aspects of owning a business. The main reasons new businesses [or even existing businesses] fail is either their inability to offer a large enough customer base on-going reasons to buy from them and/or problems associated with the production of the goods or services on time, at the right quality and with sufficient profit margin and/or ignorance of the need to hire good employees and offer them on-going training and motivation and/or understanding of the financial needs of the business and the importance of managing the books and the administration. It should be clear from the above list that on-going success in business cannot be an accidental event or just wishful thinking. Business, especially small business, requires from the individuals involved not only lots of ambition, dedication and hard work; it also demands professionalism and the understanding of a large range of commercial disciplines. The best answer to your question about the risk in business has therefore to do with the level of expertise which the business owner has to offer. The greater the relevant experience the lower the risk. The extra ingredient which every business [small or large] must possess is the vision of the owner and the managers. For a business to really 'fly' everything has to be glued together with a bit of 'magic dust'. Successful business people will understand what I mean.

Ask yourself the following questions please: Having read the reply to your question do you think that the potential rewards of business are worth the hassle? Have you considered the option of taking a license from a successful Franchise Company? The support of the Franchise System should make a big difference to both your level of expertise and the statistical likelihood of success with your chosen business.

Q: If interest rates are going to start to rise in the near future, is it a good time to invest in a business?

A: The reason the Bank of England is talking, at any time, about raising the 'base rate' is because of its desire and determination to keep the economy from overheating. At the moment inflation is low and the economy is supposed to be in a reasonably good state.

The most important consideration affecting a decision to invest in a business has to do with the specific business opportunity which you are considering. Even in the depth of a recession there are lots of businesses making really good profits. It also depends on how much money in absolute terms you are going to borrow. For example, a 1% increase in interest rates will cost you £1000 in extra interest over a 12 month period on £100,000 borrowing. When you are preparing your Business Plan you should check how sensitive your project is to changes in cost by varying the interest rate and observing the impact on the bottom line.

You must make sure that the business opportunity is a solid one with a long term prospect. Every Business Plan has to take into consideration some extra cost allowance for unforeseen items or variation in estimated costs [such as interest rate]. Naturally, I am an ardent believer that the best way to proceed is to select a successful Franchise System which can meet both your financial and personal development objectives. Being a Franchisee does not remove all the risks but being a Franchisee of a good and successful franchise system is a far more secure way into business success.

Q: Before I became a Franchisee I used to be a member of a board of directors and had the opportunity to learn the value of non-executive directors. I believe that Franchisors would greatly benefit from the contribution of independent non-executive directors. Do you agree?

A: Definitely. Most enlightened 'traditional' companies once they grow beyond a certain size [whether private or public] recruit independent non-executive directors. These 'outsiders' can bring specific expertise [financial skills, for example] but also contribute a cool, objective view of the way the Company is being run and how it hopes to develop. Many Franchisor Companies in the UK on the other hand are young and have entrepreneurial origins [they have developed from the experience of a 'small' operator who also had a vision which called for the sharing of the business opportunity which he/she had developed with individual Franchisees] and therefore may lack the breadth of business experience which can be gained over long years in traditional management. The right non-executive director could provide this extra depth. I think that Franchisees too would feel more secure and might be better willing to follow the direction and leadership of their Franchisor if they were more confident in the overall professionalism and expertise of the management and board of directors.

UK Franchisors should definitely take on-board the idea and consider the potential benefits of employing non-executive directors. Naturally, there is a cost involved both in terms of paying a fee for services rendered [about £5-10,000 p.a.] but even subtler is the subsequent restriction on the ability of the founder of the Franchise to call all the shots himself. The process of selecting a non-executive director and adjusting to the changed operating environment is demanding but can be very rewarding.

Q: How soon can a new Franchisee expect to be in profit?

A: Naturally, each Franchise System has a different investment level, different operating cost base and different breakeven and profit expectations. However, for a business to be successful it has to generate cash flow and profits to meet the needs of the operation and its owners. In most Franchise environments the Franchisee will be expecting the business to start meeting at least the modest needs of the owners, on top of the needs of the operation, within 18 months. Some businesses take longer to build up and in these circumstances the initial working capital will have to take that fact into account.

It goes without saying that any business could breakeven and move into profit faster if and when the owners operate it with greater skill, greater determination, greater energy and dedication. The closer the Franchisee follows the Systems of the Franchisor and the harder he/she work and the more satisfied the customers are, the faster the turnover will grow and with it the profitability. The answer, therefore, is that the time it will take you to start making money depends on the Franchise Opportunity which you select and the quality and quantity of effort that you invest in the business.

Q: It is said that a Franchised business is likely to fetch more when sold than an 'independent' one. Why is it so if the Franchisee is committed to paying the Franchisor on-going fees forever?

A: Let me say first of all that valuing businesses is a complex matter with many intangibles, and it is not feasible to explore all the issues here. Overall, the "worth" of a business is related to future profit/cash generation potential, and the value of the assets in a business. There may be generally an element of goodwill in any sale. The fact that the business is part of a successful franchised network rather than an independent may well influence the amount of good will a purchaser is willing to pay. This could relate to the following three reasons:

- 1] the strength of the 'system', including training and support, which a new franchisee has access to. This will enhance the chances of success.
- 2] the brand and its recognition in the market place.
- 3] the future "saleability" of a franchised business and access to
 - prospective Franchisees.

When purchasing any non-franchised business, the incoming owner will either need to be an expert in the business, and as such reluctant to pay a premium for it, or the outgoing owner will have to remain with the business for some time in order to 'transfer' the expertise to the new owner. In a small business, it is very difficult for the new owner to pay the vendor an appropriate remuneration for the time required for this training period. Therefore, the payment for the business may be mostly for this transition period.

The most important question the prospective Franchisee should ask himself/herself before joining the Franchise is whether they believe that likelihood of their survival in business and the likelihood of them achieving greater profits [after paying all the costs of running the business including the on-going fees] is enhanced by operating the business under the 'umbrella' of the Franchisor. If the answer to these two questions is yes, then the answer to whether the individual Franchisee will achieve greater financial security and success with the Franchise is yes as well. In general, the value of every business sold - especially small businesses - is very directly related to the profits and the cash flow. Therefore, every business owner needs to focus his or her efforts to achieving high but quality earnings [through repeat business from customers] and excellent cash flow.

Q: In a world of increased and increasing competition what are the disadvantages and advantages facing the Franchisor Company and the individual Franchisee?

A: As far as the individual independent businessperson is concerned, it is my view that due to the turbulence in the current and future economic climates the 'writing on the wall' can only mean trouble. All product and service providers will have to be efficient, productive, work on lower margins and need to be able to anticipate swift technological, product and demand changes. How a small, independent business can cope with these substantial and ever present requirements is beyond me. Even a small business which has successfully identified a market need in a specific time frame may fail if the owner gets too wrapped up with delivering the everyday detail which is required and thereby misses the one change factor which will destroy his business within say 24 months.

The probable scenario of the harassed independent businessperson which I have described above is the same challenge which is facing the Franchisor Company. Most Franchise Companies are not huge organisations [and many giants - even IBM - have felt the pounding of rapid technological change] and therefore need to operate professionally and with vision in order to be able to provide the input which their Franchisees expect of them. Nevertheless, the ability of the Franchisor to observe the market place, to research technological change, to identify business opportunities, to devise marketing plans, to create educational programmes, etc, etc is vastly greater than those of the individual Franchisee. Therefore, I am personally convinced that the good and dedicated Franchisor together with the good and dedicated Franchisee can battle successfully against the tide of change which is ever surging towards us. Indeed, if the Franchisor and its Franchisees work in great harmony I think they even have an advantage over the independent middle size and larger company. Why? Because together they are able to combine the vision and creativity of the larger entity with the wonderful energy and dedication of the business owner who services the customer and is in a position to deliver world class value and build lasting quality relationships.

Q: Over the past couple of years customers have consistently been trying to get me to reduce my prices by quoting lower prices available from local competitors. Should I drop my prices and suffer the damage to my margins?

A: It is generally acknowledged in the economy that since the recession customers have become much more cost and price conscious. This is not a bad development altogether i.e. as long as customers are willing to pay for Service, Quality and Value. You will not be surprised to learn that the Marks & Spencer operating principles are service, quality and value. And M & S have proved again and again that their formula works.

Every business has to find a way to differentiate itself from the competition. We no longer live in an environment which is very tolerant of inefficiency and neglect. Corporate employment does not offer the security which it did in the past and most individuals are occasionally examining the alternative of self-employment. This means that if you operate in a profitable segment of the economy others are likely to follow before long. This increased supply is certain to be reflected by lower prices. Only quality businesses offering a quality and value for money product/service will be able to command a premium price. The premium price will not necessarily mean a high price but it will mean higher than the competitors who are only competing on price.

In order to be able to compete on value the supplier has to have access to specialised skills such as training, product development, branding, marketing, etc. This is where I believe Franchising is scoring and will score even more in the future. All good Franchisors understand and accept their responsibility to continue to develop the Business Opportunity and the System which is required to deliver it. All good Franchisors understand that for their System to succeed over time they have - together with their Franchisees - to deliver to the end user a high perceived value. The power and impact of the 'partnership' between the good Franchisor and the good Franchisee is awesome when compared to the meagre means of the independent small business. It is also very impressive when compared to the sprawling corporate owner ever struggling to motivate a large number of employees who are continually concerned about down-sizing and other employment related threats which have become part of the modern economy.

The recommendation to you, therefore, is to speak to your Franchisor regarding the threats which you are experiencing and ask them to audit the way in which you interface with the customer. The good Franchisor's 'tool-box' is certain to contain remedies to deal even with price competition.

Q: The papers write about ‘the hesitant recovery’ and ‘the lack of the feel good factor’. Should I take these as signals that now is not the time to become a Franchisee?

A: Bad headlines sell more newspapers and journalists seem to find it easier and more ‘professional’ to write copy which is negative. Be it as it may, the UK economy overall at this point in time is said to be in fairly good shape. I have heard a number of detailed talks by economists about the state of the UK economy and it seems that the good news far outweighs the bad. What we don’t have is high inflation which increases the ‘feel good’ factor by boosting the value of real estate and the percentage of the pay increases. But, inflation damages people who are on fixed income [pensioners] and the increase in the costs of goods confiscates in reality most if not all the higher salary awards. Britain is not an island anymore. In fact the European Union has to remember that it too [even though it’s a market of some 350m people] is not an island either. We live in a global economy and each country has to be competitive if it hopes to sell its products and services to others. We, in the UK, need the foreign currency from our exports to buy the raw materials for our production lines, pay for the food and other products which we import and settle the cost of the foreign holidays which we take.

In fact, now is as good a time as any to consider our personal options. We are hoping that the Government will be sensible and continue to manage the economy for slow but continuous growth. The UK is growing faster than many of our European partners and still enjoying a relatively low inflation rate and fairly low interest rates. If you want to be in business, if you want to invest in your future don’t allow the headlines to hold you back. A good businessperson and a good business have to be tough enough to ride the economic cycle. There will be both better times and more difficult times during the ten years or so that you’ll be a Franchisee. How successfully you’ll be able to navigate the complex seas of business will depend on the extent of your hard work, quality care for your customers and whether you selected a good Franchisor and a good business opportunity at the outset.

Q: I have a good job and enjoy good prospects for advancement in my Company. Should I, nevertheless, consider taking on a Franchise?

A: The only person who could decide what is the best option for your career is yourself, with input from your family of course. If you feel perfectly happy and fulfilled in your employment - why seek to change? However, if you have been dreaming about owning your own business and taking the opportunity to test your skills and develop your personal resources to the full and in the process try to build a valuable capital asset and an excellent stream of income - a business opportunity could just be what the doctor needs to prescribe. Since there is no longer such a thing as a 'job for life' or even 'job security', each working person needs to take into consideration the possibility or even likelihood of being made redundant - probably more than once over a 40 - 50 years working career. As long as our skills are in high demand and youth is on our side the 'idle' periods following redundancy are likely to be relatively short. However, it seems that corporate recruiters become shy of bringing in new people once they reach the 'mature' age of 40 or so. Therefore, what the ambitious individual needs to consider is whether he/she should wait for the redundancy notice to arrive to start planning for a better future.

My personal view is that each working individual should re-examine periodically their career plans and evaluate to what extent self-employment and Franchising could or even should be part of the overall strategy. Companies develop or stagnate, businesses thrive or struggle, industries come and go, and nothing is 'fixed' anymore. Therefore, the individual needs to evaluate the strengths and weaknesses of the company which he serves and decide whether it can offer him the rewards which he seeks in return for the high value input. Franchising offers an opportunity to create wealth as well as an excellent current income. There is no need to abandon one career option for the other. There is no need to choose once and for all between employment or Franchising. A business opportunity with a good Franchise Company can be a 5 - 7 years commitment and this should leave most Franchisees with the choice whether to return to employment or acquire another Franchise Opportunity or become a totally independent businessperson. The important aspect to keep in mind is the need to study the available options well and make a considered decision based on reliable facts.

Q: Over the past year my Franchisor had experienced a high turnover of corporate personnel. These changes have been unsettling. What can we, the Franchisees do to bring more stability to the Franchise?

A: Please allow me to congratulate you on your positive attitude. It is great to hear a Franchisee asking how can he be of assistance to the Franchisor. Franchising is about a 'partnership' of purpose. Only through a combined effort by both Franchisee and Franchisor can the Franchise System and the individual Franchises become successful. Change is inevitable. In today's highly competitive environment we must be ready, willing and able to embrace change. However, the question is whether the changes at HQ are as a result of planned developments or the inability of the senior managers to retain quality staff.

Managing the Franchise Relationship is not an easy matter. Sometimes, it is difficult for the Franchisee - who is a business owner - to remember that the corporate representative is an employee and not a principle of the business. The individual Franchisee because of his responsibility for the interface with the customers is often frustrated and irritable. The corporate employee is seen at times as a 'safety valve' for these feelings. The Franchisee takes out the frustration on the hapless employee without meaning to be personal. However, the individual employee has a problem dealing with such reactions. It takes a special breed of corporate employee to be able to deal with the complex relationship which exists within Franchising. Possibly, one of the reasons for the greater staff turnover at HQ is due to the way Franchisees deal with those employees.

It is also possible that the Franchisor has decided to re-allocate the HQ resource in a different direction. After all, Franchisors only receive a relatively small percentage of the sales turnover of the Franchisee and need to make sure that they use the income productively. The effective use of the HQ resources is essential to the success of all the Franchisees. New products, new services, new marketing tools, new training modules, new communication ideas, etc are all financed by the income received from the Franchisees. This is the second area where the individual Franchisee can help the Franchisor achieve greater operating efficiency. The franchisee should share with the Franchisor his/her ideas about client needs, product/service developments and the more productive ways to influence the use of best practice in the Franchise. Naturally, the Franchisee has to be able to provide the data with the knowledge that the Franchisor will collate the information

received from the whole Franchise and act according to the larger picture.

The individual Franchisee should not feel let down if he/she thinks that the Franchisor had not acted upon their recommendation. Sometimes, it takes a longer period for the input to be processed and assessed. The Franchisee must have patience and understanding, but, only as long as the Business Opportunity when 'harvested' properly - as per the Systems provided by the Franchisor - delivers satisfactory rewards.

Q: I am thinking of buying an existing franchised business. The Franchisee who is planning to sell says he now wants to cash-in on his success. How can I make sure that after selling, this ex-franchisee does not become my competitor in my market area?

A: The question of 'vendors non-competition undertaking' in the purchase of any business is a fundamental one and requires direct input by an experienced solicitor. Please don't try to cut costs on this expenditure. I can only offer a few observations rather than specific guidelines. These you will receive from your solicitor.

- The contract for the purchase of the business should incorporate sufficient undertakings by the vendor not to compete within a designated area and for a defined period of time. They must not approach your clients or your employees. You could also agree on predetermined damages which the vendor will have to pay you should he/she breach the undertakings.
- It might be a good idea to retain some of the money due for the purchase of the business for a period of 12-18 months, as security to cover compliance with the non-competition undertaking.
- The Franchise Agreement which the former franchisee will have signed with the franchisor should contain a clause which requires some form of non-competition commitment. Ask your solicitor to explain the strength and enforceability of this clause to you.

Q: Should I join a franchise which seems to offer me an opportunity to indulge my interest in travel or would I be better off to seek other opportunities?

A: Many prospective franchisees seem to gravitate, at least initially, towards a business which somehow dovetails with a hobby or an existing interest.

It is true that it is essential for the franchisee to undertake a business opportunity which they feel confident about and able to deliver with pleasure. After all, the franchisee will be spending long hours, long days and long months in the business and it's important to be able to enjoy the daily responsibilities and events. Naturally, we are, more effective at doing things we enjoy. However, investing one's life savings, the matrimonial home, aspirations, livelihood - even dreams - is such a major decision that it must not be based on pursuing a hobby or a frivolous inclination. The proper course to take is to investigate the business opportunities for their intrinsic strength and earning potential. The final selection will depend on your ability to finance your dream franchise, be accepted as their franchisee and whether you feel that your temperament and aspirations could be achieved through your hard work and exploitation of the concept.

Q: What is the best way to fund a Franchise?

A: I suppose that if you had sufficient resources yourself, paying 'cash' for everything will be the 'best' way to fund the Franchise because this will reduce your 'breakeven point' and make you less dependent on outside suppliers i.e. in this case the banks. However, this scenario is not a likely one for most prospective franchisees nor is there a need to be frightened of borrowing from the banks. Despite the bad publicity the banks are getting currently, they are still offering a first class value to the prospective Franchisee. In fact, most businesses, especially small and medium size could not even get started without accessing bank finance. Naturally, the level of gearing is an important aspect to consider. The most difficult scenario is to borrow everything and have none or very little of your own assets in the business. The banks will normally agree to lend prospective Franchisees two pounds to every pound which you are ready to invest **subject** to the proviso that you are joining an approved Franchise system. Together with your Franchisor you should prepare a business plan and an action plan. The bank manager will want to satisfy himself that you are on the ball and ready to implement the System to the full in order to maximise the potential in the market and be in a position to service your debt. You can also avail yourself of HP or Lease or Rental finance on equipment. Note: Every good Franchise System will have sorted out the finance options and they should be able to offer a clear direction. If you start as a Sole Trader or in a Partnership you should be able to reclaim your PAYE payments for the last three years by setting them off against your start up losses. (See your accountant).

Q: What is 'factoring'?

A: Factoring is, in its simplest form, an alternative source of raising working capital. In essence what happens is that the Finance Company [factor] buys the debts which other businesses owe to your Company and pays cash right away for them rather than wait until the customers settle them. Sometimes the factor would assume responsibility and take the risk for the potential bad debt but more often it will be recourse finance [you are responsible for the bad debt] but will take over the function of managing your debtors and the credit control aspects. You are not likely to get upfront much better than 80% of the face value of the debt which the factor finances and the balance less costs will be paid when collected by the factor.

The factoring Company will not take on every business application. They will want to see a certain volume, certain transaction value and reasonable record of bad debts. Also, you can't select which invoices you'll 'sell' to them, and you'll be expected to enter into a commitment for a specified period including a notice element.

It would be a good idea if you consulted a bank or contacted your local Chamber of Commerce for a name of a reputable factoring company. For certain activities there is much merit in the service.

Q: As more franchisors 'jump on the band wagon' will the market become saturated?

A: In the U.S.A. franchising [in the broad sense] is a \$700B p.a. 'industry' and covers over 40% of all retail sales. These numbers mean that the UK has a very long way to go. In fact, a large number of franchisors by yourself will not mean 'saturation'. On the contrary, the more people know about franchising the more people will use franchising as a way to personal development and wealth creation. Saturation can take place within a specific industry. For example, if there were too many flower shops which were franchised and they dominated the flower industry [don't forget often the independents far out number the franchised units] then we could have a situation whereby the new additional units do not increase the market but start to take sales away from existing units.

Another aspect of 'saturation' could be that a specific franchise system will have established representation in all of their potential markets and therefore no longer have new sites available. However, the prospective franchisee could always buy an existing unit from an existing franchisee who wishes to retire, move on, cash up on the value of the business, etc.

Q: Should I buy a computer to help me run the business?

A: Very few businesses can today justify **not** buying a computer. The cost of the hardware and software is so low that it is a real folly not to take advantage of the extra management information and marketing opportunities which the computer will provide. I trust that your Franchisor has either bespoke software or offers his recommendation as regarding the hardware and software which you should buy. Also, the Franchisor and his field people should be able to guide you how best to use the package and exploit the potential in your individual business. I find it incredible in this day and age when a most adequate PC which a small business requires costs under £1000 that there is anyone who thinks it is a waste or unjustified expense. Business is about expertisc and through the knowledge that we gain about the customers' needs we can create the opportunity to meet and satisfy them. The modern computer and the Franchisor's software are the tools each businessperson is required to use to enhance and capture the appropriate expertise.

Q: My Franchisor insists that we the Franchisees pay the weekly [on-going] Franchise Fee on time [as per the Franchise Agreement]. Late payment is being treated severely and an interest charge is applied. Is the attitude of the Franchisor reasonable? Considering that we, the Franchisees, have to wait for our money because our customers want to pay us as late as possible.

A: Good Credit Control is one of the foundation stones of stable business. The Franchisor has planned for receipt of your income and is funding its activities from it. Without good cash flow your Franchisor's own Company will be de-stabilised and eventually fail. The consequences to your Franchise System will be dire. Your Franchisor should have advised you how to go about setting credit terms for your particular business. The Franchisor will also have advised you what proportion of business can be transacted with immediate payment. Each business needs working Capital - yours is no exception. The longer you allow your receivables to remain with your customers the more cash will be tied up in the business. You'll be surprised how effective good credit management, control and collection can be. Your Franchisor can't become your banker. Collecting your money and paying your obligations is your responsibility.

Q: My Franchisor insists that all its Franchisees and Franchisee employees wear the Corporate uniform every day. Is this the norm? Is it a benefit to my business?

A: If you look around, you will surely see that many of the national and international chains incorporate either full uniform or some form of Corporate clothing as part of their overall Corporate Image and Presentation. Corporate image is important in establishing and maintaining a strong Corporate identity and loyalty with the customer. There are few things which are more important in business than gaining a positive view of the business which directly increases the likelihood of repeat business. Corporate uniform is a relatively inexpensive way of branding a product. It is a very worthwhile investment. Compare the complete and harmonious feeling which you get when you step into a well designed retail outlet where the employees wear either a uniform or elements of Corporate clothing. In a mobile business the uniform and the logo which is fixed to it give a message of professionalism and are a very cost effective advert to your business.

Q: How to select and motivate Staff?

A: I am very pleased to deal with this question because in most Franchise Opportunities [except those which are referred to as Job Franchises] the Franchisee is expected to hire, employ and motivate employees whose contribution or otherwise to the business is going to have a crucial impact on the success of the business.

Business success is largely to do with meeting a need of the customer. Once the need is identified a 'delivery' system is developed which includes 'bringing' the message to the attention of the potential customer. The customer will not buy even once if their perception is that their need is not going to be satisfied. Certainly, having failed to satisfy the customer once the likelihood of repeat business is almost nil. Since the business owner is only one part of the 'delivery team' the importance of selecting the right employees becomes paramount. It is my view that the employer should invest the time and money necessary to hire the right employees and pay the price for the job.

Once hired, the people require initial and on-going training. The employee will be able to deliver better value for money to the employer and the business by being properly trained to meet the needs of the business and the customers. Even a well selected and trained employee needs leadership and motivation. This is the duty and pleasure which is reserved for the owner of the business. Every one of us has the making of a leader. But, we need first to understand that leadership brings far more obligations than direct benefits. The best kind of leadership is by example and this means: hard work, quality, honesty, integrity, vision, compassion, as well as, good business sense and the willingness to take risks.

Q: In what time span could one expect to recoup the initial outlay?

A: As in most questions which relate to specifics each franchise company has a different formula and, therefore, there is no specific set date. However, there are some guidelines which you could and should consider.

The length of the Franchise Agreement is very important in considering the return on your investment. If the Franchise Agreement is only for say five years, it is not a good investment if you recover your costs in year four and only have one year left for profit.

The potential profits of the business [assuming you follow the system diligently] are relevant too. If the profit potential is limited and the time it takes you to recover your investment is long, the risk/reward ratio is not good for you.

Basically, you should decide how long you want to stay in the business, how much capital you want to accumulate during those years [after recovering the initial investment] and how much on-going income you need/want to earn. If the franchise which you are considering can offer you the above within the time frame which you have allocated to it, the decision is not difficult to make.

Q: What rights does a Franchisee have if the Franchisor goes into liquidation/receivership?

A: Let's hope that this is a theoretical question rather than one which reflects the situation you are in or facing. In such circumstances you must take appropriate legal advice because I am not a solicitor and can only offer a 'general knowledge' reply.

The question highlights the importance of doing your 'homework' before deciding to join a specific Franchise System. It's not enough if you find the concept attractive and the executives of the Franchisor decent. The Franchise Company itself has to be properly funded and likely to survive the rigours of building and maintaining a Franchise System. From personal experience I can concur that to operate a Franchise Company with a large body of Franchisees is a most exciting but very demanding experience. Therefore, the Franchisor must have the quality of management and the financial resources needed to meet the challenges of the 'industry'.

Once a Franchise Company has run out of money [hopefully before that happens] it is likely that it will try to refinance itself by either selling part or most of its shares to new investors. Possibly, together with the new money new managers and better skilled managers too will join the team. Even when the Company goes into receivership it is likely that the receiver will try to keep the Company going and sell it as 'a going concern' to new investors. As far as the Franchisee is concerned until such time that the Franchise Company completely disintegrates and no new buyers are found he/she are bound by their Franchise Agreement. Normally, the terms of the Franchise Agreement will allow the Franchisor or its successors the right to transfer the benefit in the Franchise Agreement to third parties. If your Franchisor is having financial difficulties one way to assist would be for all the Franchisees to pay all the amounts owed to the Franchisor without delay. The additional cash flow might be enough to give the Franchisor a new lease of life. Remember, the receiver will be entitled to claw back from every Franchisee **all** the amounts which are outstanding to the Franchisor.

Q: I am considering buying a franchise and would like to know whether I can expect to have the freedom to charge my customers what I like, or do I have to follow precisely the prices fixed by the franchisor? If I do have to charge his prices, how can I compete when my competitors cut their prices?

A: On the whole the current policy of Government is to encourage competition and discourage price fixing; this is reflected in the relevant statutes. The view held is that the customer is entitled to more choice including access to a range of price options. However, the fair trade legislation was intended to foster competition between different suppliers and not within the same organisation. A Franchise chain therefore, is an interesting case to study. On the one hand it is composed of a group of independent businesses each owned by a different set of individuals whilst at the same time they are all performing under the same Brand and Operating System, selling an identical range of products or offering a very similar range of services. In principle, most national chains would prefer to maintain a similar pricing structure nation-wide. This is not always possible because of either structural regional differences or temporary local price wars. A large Franchise chain, on the whole, would attempt to behave pricing wise in a similar way to the Company owned national chain. However, because each unit is owned by an individual Franchisee there will be the added pressure by the owner to meet the local challenges with greater flexibility. Each Franchise chain will have its own method of dealing with this pressure and the degree of the pricing freedom which will be delegated to the Franchisee will vary. It should be noted, however, that cutting prices can simply be a Knee-jerk reaction which will erode Franchisee profit margins without necessarily increasing sales. Price becomes a major issue only when the business has failed to differentiate itself sufficiently from the competition. The product quality, the service content and the overall customer perception of value-for-money are the crucial factors. The Franchisor should invest in building the Brand image, in improving product quality and range, in training the Franchisee and his staff and in internal communication in order to direct Franchisee effort away from selling on price alone.

Q: Should Franchisors capitalise the 'value' of the individual Franchise Agreements in their balance sheet? This will 'strengthen' the balance sheet of Franchisors but is it a practice that Franchisors should engage in?

A: Because a Franchisor's business is very often about the provision of services rather than manufacturing, their balance sheet could be seen as 'thin' and possibly a cause for concern to prospective Franchisees. Therefore, capitalising the 'value' of a significant number of contracts with Franchisees could be thought to add 'substance' to the Franchisor's 'assets' section. Similarly, non-franchise companies sometimes bolster their balance sheets by valuing the brand or brands which the company owns and operates.

However, there is no generally agreed method of valuing franchise contracts for balance sheet purposes. One method would be to capitalise a certain number of years expected profits, but the number of years and the estimated profits for future years are obviously highly subjective matters too subjective, some would say, to be used for audited accounts. For internal management purposes capitalising a value could be an advantage in re-enforcing awareness of those valuable assets which are theirs to exploit.

High brand or franchise values in the balance sheet are of much less relevance to the prospective or existing franchisee. What the franchisee wants/needs to see is a franchisor with sufficient cash reserves and a healthy balance between debtors and creditors to assure continuing trading. A valuable brand has value and importance to the franchisee as an indicator that there is good market awareness to the product/service and a valuable brand is more likely to be purchased by third parties should the business of the franchisor fail. The franchisee should do everything to avoid joining a franchise chain which is in financial difficulties and likely to fall prey to cash flow problems. A high brand value in the balance sheet is no evidence of solvency.

Q: As a Franchisor would I be correct in treating my contracts with my Franchisees as 'income producing' assets of my Company, and as such should they have a place on my balance sheet? If this is the case, how can I calculate their value?

A: Although I can understand the desire by some Franchisors to put a valuation on their Franchise Agreements, I am not sure whether the end justifies the means. I am not an accountant but I would assume that there is sufficient economic rationale and precedent to assigning a monetary value to the Franchise Agreement which then could be reflected in the Assets section of the Franchisors balance sheet.

The truth is that because Franchisors balance sheets are often very 'thin' i.e. with relatively 'few' tangible assets, anything which can boost the Assets side and correspondingly the shareholders 'Funds' section would be welcome. The problem is that in reality the 'goodwill' value of the Franchise Agreements cannot be used to pay the bills. If the Franchise is profitable the Agreements will have a 'value' but the Franchisor will not need to rely on them, whereas, if the Franchise was having financial difficulties the valuation of the Agreements would make no difference to the cash flow or the willingness of the bank to advance further loans. The fact that there were financial difficulties would suggest the Agreements had little value. There have been numerous examples of the precarious reality of Brands and goodwill being disclosed as assets.

In my opinion, Franchisors should examine their liquid resources and financial structure. Too many UK companies are dependent almost exclusively on overdraft facilities and short term bank loans. This is a very precarious structure and a recipe for disaster. Whenever the business either hits a setback or even starts moving forward with speed it is restrained by the limits of its overdraft facility.

Entrepreneurs are always very reluctant to give up equity in their business. However, the best way to assure that the business can grow steadily and become a significant earner is to start with a solid foundation of long term capital and then retain most of the profits. This is the way the successful continental firms have operated. The name of the game is to build a solid, quality company. Fire fighting because of constant cash flow problems creates the exact opposite climate.

Q: Some Franchisors are offering existing units up for sale. What are the reasons for these sales?

A: Most Franchise Companies, especially those which have been in business for any length of time, will have operational units up for sale. By definition each Franchisee will put his/her business up for sale at some point in time. The reasons why franchised businesses are being sold are many; the franchisee has made the money he has set out to accumulate, the Franchisee wants to up-grade and move to a more expensive and profitable franchise, the Franchisee wants to retire, the Franchisee does not like the specific business any more, due to Franchisee health problems. Franchisee family problems [divorce], the Franchisee/Franchisor relationship is not working, the Franchisee is not willing to commit himself to the effort which is required to maintain the business success in a changing market, the Franchisee's business has failed, etc.

Q: How will the price of an existing unit be calculated?

A: Whatever the reason for the sale of an existing unit, it is worth your while to investigate the business opportunity which it open up to you. Clearly, you need first to decide which industry you wish to select as your 'playing fields' and which Franchisor Company you want to join. Thereafter, you can start to assess the reasons why each specific business is up for sale. The reasons should impact on the price i.e. a profitable business will cost you a multiple of the profits whereas a failing business will require only the purchase of the assets and the client list. In a better-known Franchise, you will also be expected to pay for the goodwill which the Franchisee has developed, if any. Separately, you will be expected to pay the Franchisor for a new Franchise Agreement, training, introduction fee, etc.

Q: Will the Bank be willing to finance the purchase of an existing unit?

A: The clearing banks are continually studying the progress of the individual Franchise Systems and form a view as to their stability and viability. Each investment is examined by the local Bank Manager to assess the likelihood that the individual Franchisee is going to achieve success and thereby be a good risk for the Bank. Therefore, in principle, Banks are pleased to finance resales/business transfers as long as the price you have agreed to pay, the assets you are buying and the business potential you are going for, are all of sound value. It is imperative that you present to the Bank a properly constructed and realistic Business Plan if you are to have any chance of raising the cash.

Q: So much is being written about starting your own business. I would like to know what makes a person 'have a go' at self employment.

A: Most people start a business because they feel a need to do it. There exists already in the person a desire to pick up an idea and run with it. The individual has often said to himself/herself at work that they could do it better than their boss. Another category of people who take up self employment are those who were made redundant and do not wish to go through this experience again or who can't find a suitable job. A third group would be people who wish to improve themselves financially and make an investment in a business for the financial rewards.

Q: What are the risks of self employment?

A: The main aspect to know is that the majority of new, independent, small business start-ups fail. Many fail within the first few months, few last a number of years. There are a very large number of reasons why people fail in their effort to establish an independent small business. The following are a small selection:

1. The owner does not have the skills necessary for the specific industry.
2. The owner does not have the necessary general management skills.
3. The business is under funded.
4. The market has not been assessed properly for product demand, supply, competition, etc.
5. The owner is unwilling/unable to commit himself to the hard work required.
6. The owner does not use his time constructively.
7. The owner does not know how to deal with both opportunities and problems.
8. The owner confuses cash with profits.
9. The owner does not pay attention to the administrative side of the business.
10. The owner does not build a reliable team of employees.
11. The owner does not have the time or inclination or skills to anticipate change and how to take advantage of it.

Q: If independent small businesses fail so miserably, what can one do to reduce the risk of failure?

A: Take the Franchising route.

However, even under the Franchising umbrella there is no absolute guarantee of success. Mainly because of the franchisee [the business owner], has to display a high level of commitment to the business and enthusiasm for success. Without hard work, it is impossible to expect long-term success.

Another important aspect is the selection of the Franchise Company. If the Franchisor Company is inadequate, it is more difficult for the franchisee to succeed because he loses many of the advantages of being in a Franchise.

The Franchising Concept itself [when it is operated by a good Franchisor and Franchisee] takes care of many of the pitfalls which threaten the existence of the independent small business.

The Franchisor will have developed a business concept, tried it successfully and compiled a range of manuals which contain the information necessary for the franchisee to run a 'duplicate' of its successful units. This means that the Franchisee does not need to invent/discover anything new. The Franchisor will train the Franchisee and often his staff in the secrets of the business. The Franchisor will have designed also a distinct visual look to the business which will be attractive to the customers. Possibly, the Franchisor may be already well known to the public because the System has been in operation for some time. The Franchisee need only learn the formula and apply it diligently. Success should be achieved and its actual extent will depend mainly on the degree of energy and professionalism which the Franchisee is investing on an on-going basis in the business.

Q: I am a new Franchisee full of excitement, apprehension and hope. It may seem strange, therefore, that my question is about 'selling the business'. However, I would like to ask for your opinion on how will I know when the time has come for me to sell the business?

A: Your question shows a great deal of foresight and is truly critical to the overall success of your endeavours. The fact that you are talking about 'selling the business' rather than 'selling the Franchise' demonstrates qualities which will serve you well. My view is that Franchisees must decide **before** they start their investigative work [to identify their preferred Franchisor Company] which financial rewards they require/expect from the business. This includes annual salary/benefits and the amount of money they wish to have saved by the time they exit the business. It is my recommendation that the prospective Franchisee has to be ambitious as regards to these targets because unless they can achieve significant financial improvement compared to the alternatives available in employment they should not take the risks nor make the dramatic commitment which is required from running a business. In addition, it is my view that the prospective Franchisees should decide that if they can meet their financial target in say 7 years they should do so rather than plan for say 10 years. The business environment is so competitive today that only a business which pushes hard in its market place is likely to survive and thrive. Another suggestion is that you **ignore** in the target savings the re-sale value of the business. This does not mean that you will be unable to sell the business, it could mean at worst that if the market drops in your industry you still have your nest egg and at best that you have at the end of the day another substantial windfall. Using the above approach to the business will inevitably make those Franchise opportunities with the greater potential financial return much more attractive. In addition, it's worth noting that this approach will require you to work in a very focused way every day of the years you'll be associated with your Franchisee. Your Franchisor should be able to help you put together business plans and marketing plans which will dictate the amount of effort you'll have to invest.

Q: My Franchisor charges me interest on late fee payments. I know that the Franchise Agreement gives the Franchisor the right to do it, but I thought that the Franchisor would be more understanding. Is my Franchisor acting in a caring and responsible way?

A: To answer this interesting question in full we need to tackle two elements:

1. Why is it that you are failing to meet your payment obligations on time?
 - 1.1. Is your business performance under par? If so, are you following the Franchisor Business System to the full? are you implementing all the marketing and sales activities as prescribed? Are you taking advantage of the training and skill building activity which the Franchisor is making available to you? Are you aggressive in the market place? Are you offering your customers excellent service and value for money? Are you spending enough time to meet your business management obligations? Do you have a current Business Plan, Cash Flow, Marketing Plans, etc? Do you collect your money from your clients? Are you paying too much for what you need to buy for the business? Are you paying yourself more than the business can afford? Are you working hard? Is your commitment what it needs to be and your enthusiasm showing? If you did all the above you should have enough cash flow and profits [assuming you chose the right Franchisor and the industry] to meet your obligations to your Franchisor.
 - 1.2. Are you not meeting your financial obligations to the Franchisor because you begrudge what you have to pay?

The 'greed factor' in business is constructive and necessary but not if it becomes self-destructive. The Franchise and the Franchisor make it possible for you to operate successfully within a certain niche in the market. The value you get from a good Franchisor far exceeds what you have to pay. What is important is not what you pay but how much is left in your own pocket - assuming you actually implement to the full the Franchisor's Business System.

2. Why the Franchisor needs the timely payments:

- 2.1. The Franchisor will have his own overheads to meet. HQ will have technical, marketing and field support people as well as administrators to manage the business. All these and other support activities have to be paid for on an on-going basis.
- 2.2. The Franchisor does not want to be your banker. He is not in the lending business and really needs the cash flow to meet his operating, profit and reserve commitments.
- 2.3. The Franchisors rate of interest will always be lower than unauthorised, unsecured borrowing from any of the Clearing Banks. The Banks are very hard these days on any business [or individual] that exceeds the approved limits of their overdraft. The effective rates charged will be as high as those of your credit card. Therefore, the 'forced lending' by your Franchisor is probably a relatively cheap source of finance.

In conclusion: If you have genuine cash flow problems you should discuss them with your Franchisor as well as your Bank. With the Franchisor you should examine what you need to change in the way you are operating the business in order to improve the cash flow. Armed with a properly written projected cash flow your request to the Clearing Bank for further finance is likely to be more productive. The Bank may, nevertheless, ask for additional securities.

In the meantime, if you are dependent on the Franchisor for 'bridging' finance- you should be grateful and pay your interest charges with thanks rather than feel 'hard done by'.

Only, if you understand that your relationship with your Franchisor is primarily a business one, and that you are responsible for building the success of your own unit do you have a good chance to achieve success and profitability.

Q: I am concerned about the financial liquidity and viability of the Franchise under whose name I am currently trading. What, if anything, can be done by the Franchisees?

A: It is unfortunate that you should find yourself in such a position. A financially impoverished Franchisor is less likely to be able to plough resources into Research and Development, new training modules, HQ personnel, etc. I assume that originally - before you joined the franchise - you did your 'homework' i.e. read the Company accounts and were satisfied with their financial strength and viability. Therefore, the questions to ask are:

1. Is the Concept commercially viable but because of the difficult economic environment the franchisees are not paying their fees on time and the Company is not applying a strict credit collection policy? If this is the case each franchisee should hasten to meet their obligations. Beware, if your Franchisor went into liquidation the receiver will collect the debt without mercy.
2. Is the Concept incapable of meeting or developing the challenges brought about by time or market variations? This would result in low sales within the Units and therefore lower fee income, bad credit collection, etc.

Close co-operation between the Franchisor and Franchisees is quite likely to produce new ideas about customer needs and expectations. These ideas should be tested in a number of Units and further refined according to response. With flexibility and lots of goodwill it should be possible to re-focus the business and improve its customer appeal and margins.

3. It is possible that the Franchisor will require a financial injection from either the existing shareholders or new equity investors. There are a number of Development Capital groups [including 3i] who would be interested to talk to your Franchisor. Possibly, the Franchisees could share their concerns with the Franchisor and encourage the directors and shareholders to recapitalise the Company. However, do remember that the Franchisor will not take kindly to comments about the financial state of the Company as long as there is a debt owed to the Franchisor from the Franchisees.

Note

The last thing the Franchises should seek at such time [or at any time] is a useless head-to-head confrontation with the Franchisor. As long as there is flexibility and goodwill from **all** the parties concerned, positive results can and will be achieved and the Franchise and the Franchises will have a far better chance to thrive.

Q: Is there anything I can do to check out the American parent Company before I enter into an Agreement with the Master License Holder in the UK?

A: There are a number of reasons why a prospective Franchisee of a UK Franchisor [Holding a Master License] would wish to check the credentials and pedigree of the original US Franchisor:

1. The UK Master Franchisor is still a relatively new Company without much of a track record here.

However, finding out that the U.S.A. Franchisor is a substantial Company will not necessarily mean that the UK Company is financially reliable. A Master License is exactly what it says i.e. a license to operate in the UK and to license others to replicate the System. If the UK Master License Company is weak financially or in its management the UK Franchisee must not assume that the US 'parent' Company will step in and offer support services should the worst happen.

2. To find out how successful the US Company is in exploiting the business opportunity in its home market.

If the UK Franchisor Company is still in its infancy finding out about the success of the US Company could indicate a possible parallel development in the UK. It should be noted again that a success in the US is no guarantee for an eventual UK success, although, it's far better to be part of a successful US chain than a problem US chain. The best option is to join a successful UK Franchise Company.

How to go about investigating the US Company?

1. You could write to the International Franchise Association in Washington DC [the British Franchise Association can provide the address] and ask for information.
2. You could write directly to the US Company and ask them to send you their Accounts and Franchise documents. Your accountant and solicitor could help you analyse the data.

Q: I have a successful business but I feel like doing more. Should I buy another Franchise? Should I buy the same business or try something else?

A: Running and operating more than one business requires a Different set of skills. Furthermore, the overall risk factor [and in every business including a successful one whether Franchised or not there is risk] increases substantially. When you operate one business you can be everywhere. Even if you delegate in a small business your finger is on the pulse and you can tell in a glance how well the business is doing. If you expand it's likely that you'll need managers in both businesses. This factor alone will increase your cost base substantially as well as multiply your risk exposure.

Nevertheless, many people have successfully operated more than one Franchise. Therefore, your question is a legitimate one. However, it is possible to approach it from a number of angles.

The most natural expansion would be to acquire another Franchise from your existing Franchisor. Afterall, you know the business and it should be easier for you to undertake the expansion. You could establish a new territory or you could buy an existing unit which is either doing well [this will mean a premium] or you could buy a problem unit and turn it around. There is a logic to buying a unit which is fairly close to your existing operation otherwise you'll have to spend unproductive time travelling to and from your two units.

You could sell your existing unit and either buy a larger area from your existing Franchisor [a problem unit and an adjacent market for a second operation - for example]. Alternatively, you could even decide to re-examine the market and see whether Franchising today is offering business opportunities which either did not exist when you started or which were too expensive for your financial resources then. Franchising today has a lot going for it. You are now not only better funded but also more experienced. Maybe, you could find a far more rewarding Franchise opportunity. A Franchise which will offer you more profit as well as more challenging personal opportunity.

Q: I know that skill training is important to my employees. But, where do I take the time and what about the cost?

A: It is interesting to note that research has demonstrated that most owners of small businesses quite openly state they believe in the value of skill and operational training. However, they also admit that they undertake very little training activity nor offer any of it to their employees because of time constraints. Running a small business is a very intensive affair and there seems to be very little time for the luxury of doing anything else without a strong conviction that it must be done.

Any good Franchise Company will have developed a comprehensive range of training and skill development programmes for its Franchisees and their employees. The training will be focused on the needs of the business and the Franchisees have an on-going opportunity to influence the available training through their input to the Franchisor. This availability of focused training is one of the great benefits of being part of a Franchise System. It is essential that the Franchisee recognises the need to take advantage of the training. Any business which is not updating its skill base and fails to recognise that in facing the customer it must have access to the latest selling and technical tools is putting its whole existence at risk.

Although it seems a nuisance to have to take time away from the business or send a valuable employee to a training facility, the benefit which is gained from the improved skills and the interaction with other Franchisees, employees and the Franchisor personnel is enormous. Why be in a Franchise and not take full advantage of its offering? Why not do everything necessary in order to maximise the commercial potential of your business? Your greatest asset is you and your staff - make sure all of you work as effectively and productively as possible.

Q: Over the past couple of years customers have consistently been trying to get me to reduce my prices by quoting lower prices available from local competitors. Should I drop my prices and suffer the damage to my margins?

A: It is generally acknowledged in the economy that since the recession customers have become much more cost and price conscious. This is not a bad development altogether i.e. as long as customers are willing to pay for Service, Quality and Value. You will not be surprised to learn that the Marks & Spencer operating principles are service, quality and value. And M & S have proved again and again that their formula works.

Every business has to find a way to differentiate itself from the competition. We no longer live in an environment which is very tolerant of inefficiency and neglect. Corporate employment does not offer the security which it did in the past and most individuals are occasionally examining the alternative of self-employment. This means that if you operate in a profitable segment of the economy others are likely to follow before long. This increased supply is certain to be reflected by lower prices. Only quality businesses offering a quality and value for money product/service will be able to command a premium price. The premium price will not necessarily mean a high price but it will mean higher than the competitors who are only competing on price.

In order to be able to compete on value the supplier has to have access to specialised skills such as training, product development, branding, marketing, etc. This is where I believe Franchising is scoring and will score even more in the future. All good Franchisors understand and accept their responsibility to continue to develop the Business Opportunity and the System which is required to deliver it. All good Franchisors understand that for their System to succeed over time they have - together with their Franchisees - to deliver to the end user a high perceived value. The power and impact of the 'partnership' between the good Franchisor and the good Franchisee is awesome when compared to the meagre means of the independent small business. It is also very impressive when compared to the sprawling corporate owner ever struggling to motivate a large number of employees who are continually concerned about down-sizing and other employment related threats which have become part of the modern economy.

The recommendation to you, therefore, is to speak to your Franchisor regarding the threats which you are experiencing and ask them to audit the way in which you interface with the customer. The good Franchisor's 'tool-box' is certain to contain remedies to deal even with price competition.

UNDERSTANDING THE FRANCHISING CONCEPT

Q: How do Franchisors reconcile the fact that Franchisees have a short term view of their Franchise interest whilst Franchisors have to assume the responsibility for the long term?

A: The whole subject of Franchisor/Franchisee Relationship and the way each party views the business is fascinating. I wish that the people involved in Franchising actually had a better understanding of the forces which impact upon their relationship. My personal view is that the individual Franchisee should recognise that he/she have leased the Franchisor's business system for a specific period of time with a commitment to use it to the full on a journey intended to achieve a certain degree of financial and business success. The Franchisee is invited to add to the development of the System by contributing from his personal experience. However, the Franchisee should not be diverted from the main task which is building his own successful and profitable business. The moment the Franchisee has made the amount of money he has set out to accumulate and loses interest [or the challenge] in the business he should sell his unit and let another qualified Franchisee take over.

The Franchisor has the long term responsibility to the Franchisees and the market place, as well as, to the HQ personnel and the shareholders to maximise long term success and value. I don't see a necessary conflict between the short term interest of the Franchisee and the long term view point of the Franchisor but inevitably some friction points could arise. Therefore, the Franchisor and Franchisee must maintain open lines of communication to allow them the opportunity to discuss positions and understand the built-in division of responsibility which is the real strength of Franchising. It is my view that educational activity is necessary to assist all Franchisors and Franchisees to understand better the dynamics of the Franchise Relationship. This extra knowledge will go a long way to reducing what could be perceived as a potential conflict of interest.

Q: How would a typical Franchisee express his sentiments about being a Franchisee?

A: This question could be classified as being a tricky one to answer. There are probably some 20,000 Franchisees in the UK and each one will have felt differently about being a Franchisee at different times during their life span as Franchisees. I would hazard to say that on the whole Franchisees are satisfied with the choice they have made. Afterall, it is much easier and safer to become self-employed through the means of the Franchising Concept than opting for the 'independent' route. In exchange for the initial and on-going fees the Franchisor is pleased to offer a proven business System, a recognised brand, initial and on-going training, marketing concepts, marketing tools, trouble shooting staff, technical development, innovation, etc, etc. The Franchisee has more time to concentrate on serving the customer and should see a better profit performance than competitors who are unable to tap into the Franchisor's resources. The Franchising route is also proven to be a safer one to travel. It is said that amongst the independent business start up as few as one in ten businesses are still operating after ten years. It is also said that in a successful Franchise System the likelihood is that as many as 70-80% of the Franchisees will still be in business after ten years. Naturally, Franchisees who are losing money regret the decision to become enterprisers but they often recognise that the failure to build the business lies in their inability to adhere to the Franchisor's System.

At times Franchisees can feel a bit lonely in their 'locations'. Even a good Franchisor cannot keep up a constant communication going. On the other hand, there are Franchisees who wish the Franchisor kept greater distance and left them more to their own devices.

During the initial learning period Franchisees seek continuous contact with the Franchisor but later on whilst some become over dependent on the Franchisor others may choose to develop independently and seek in effect to re-invent the wheel. Clearly, the most effective way to maximise the potential of the business opportunity and Franchisees profit is to follow the Franchisor's System and take advantage of the training and marketing tools which are available from the Franchisor.

Q: There is a general concern about the lack of skills training in the UK. Does Franchising contribute in any way?

A: In the fast changing environment of modern business it is essential for any nation to invest in the development of the skills and aptitudes of its people. It is a pity that the UK has not allocated in the recent past more resources in this direction. There is, however, much greater awareness at present of the risk and the damage which failing to improve the UK's skills and competitive flexibility could cause our economy. The DTI is pumping money into the TEC's and others [amongst them the CBI] are trying to investigate and improve our understanding of how to use our human resources more effectively.

Franchising could be a powerful player in the international war to maintain the wealth of nations. The whole concept of Franchising revolves around the transfer of expertise and know-how. Therefore, part of the Franchisor's responsibility is to create the training courses which will add to the skill base of the Franchisor's personnel, it's Franchisees and often their staff too. As far as Franchising is concerned the Franchisee needs to understand this aspect of the business and take advantage of the training which is available. Unfortunately, small business people [even Franchisees] often fail to realise the full extent of the value of skill and System training. The daily demands of the business always seem to take precedent. Franchised businesses are supported by the Brand presence of the Franchisor. However, to maintain the integrity of the Brand the customer has to be offered consistent value for money and excellent service by each Franchisee. The Franchisor [the good Franchisor] will invest a lot of effort and money in trying to maintain such integrity in the market place. This also means that employees working for a Franchised unit are likely to gain good grounding/training in customer service and adding value.

Q: Are the people who sign up for a Franchise the 'losers' i.e. those who can't do it on their own? Or does Franchising offer a real incentive to the 'winners' too?

A: Readers of my Q & A columns or articles cannot come to the conclusion that Franchising is for 'losers'. It is impossible to establish and maintain a successful and profitable business for any length of time unless you deliver perceived value to the customer. The end-user will not continue to buy your product/service in sufficient quantity to allow you to earn a decent profit unless they are satisfied with the overall value and service. A 'loser' for me is a person who does not understand, or want to understand, or refuses to make the effort necessary to meet the needs, wants and expectations of the customers. Franchising, good Franchising, offers the good and dedicated Franchisee an opportunity to concentrate most of his/her effort on meeting the needs of the customer i.e. selling the product/service at a reasonable price and at a decent profit margin.

The Franchisor's ever developing Operating System will make it possible for the Franchisee to move with the times without having to invent by himself new tools, new marketing ideas, new products, new training modules, etc. etc.

Franchising allows the Franchisee - the 'winner' Franchisee - to become an 'expert' in the new business within a matter of months and to 'get off' to a quick start and reach higher levels of success. The on-going fees which the Franchisee pays the Franchisor should be rewarded with the availability of the Operating System and the ability to dedicate more - a lot more - of the daily time to servicing customers and generating turnover and profits.

Q: Are there in the Franchising Concept areas of built-in conflict between Franchisor and Franchisee? Is it inevitable that Franchisor and Franchisee will fall-out at some time because there is a basic conflict-of-interest between the parties?

A: My own personal view is that there is no inherent need for a good Franchisee and a good Franchisor ever to 'fall-out' with each other. The Franchise Concept offers a good Franchisee an opportunity to be self-employed, own a business, benefit from the experience and scale of operation of the Franchisor and earn an excellent return for his time and investment input.

The major areas of conflict are communication, payment, the interpretation of the Operating Systems and the extent to which the Franchisor continues to re-invest and develop the business.

The individual Franchisee is committed to paying the Franchisor a percentage of the turnover for as long as he/she remain Franchisees and regardless of whether they are making a profit for themselves. Moreover, the Franchisee is paying mostly for the use of an 'Operating System' rather than for the provision of a specified quantity of services. This is a fairly abstract arrangement which at the outset is accepted as reasonable by the Franchisee who is starting from scratch but later on when he/she have acquired much of the skills needed to run the daily chores of the business seems to become a burden.

For a Franchisee to maximise his benefits from the association with the Franchisor I recommend that the Franchisee [having first selected a good business opportunity and a good Franchisor] concentrate on using the Franchisor 'Operating System' to its maximum effect. As long as the Franchisor is meeting his obligation to continue to up-date the Business Opportunity and the Operating System and as long as the hard work which the Franchisee is investing in applying the Operating System in delivering a service/product to the customer results in an acceptable level of profitability [after meeting the Franchisor fees] the Franchisee should not begrudge the payments made to the Franchisor. Recognising that the Franchisor is the originator and owner of the System and the Business Opportunity is a healthy approach to the Franchisee/Franchisor relationship. Recognising that the Franchisor by leasing his System to the Franchisee is also sharing with the Franchisee his own business opportunity will help ease the pain of making the weekly/monthly payments.

Conflicts do occur in Franchising. Conflicts occur in most business relationships. In Franchising many conflicts would be avoided or minimised as long as people communicate and talk to each other. Neither Franchisor nor Franchisee should be greedy.

Greed is certainly not a good mortar for a lasting relationship. If both parties constantly keep in mind and fulfil the Division of Responsibility which they have undertaken, their business success will be assured.

Q: What are the main elements which determine whether a business could be converted into a successful Franchise System?

A: The most important initial factor is whether the business being considered for Franchising is profitable and whether the individual units which will be Franchised can demonstrate profitability. In the early stages, the profitability of the prospective Franchisor's business is less important as long as it has sufficient liquid resources and management skills to see its way to a profitable future. However, it is essential that the diligent, hard working and dedicated Franchisee should be able to work his way towards building a profitable future for his individual unit.

The prospective Franchisor has to examine the profit margins in the business and determine whether the Franchisee can add-value to the overall economic picture. It has to be assessed whether the gross and net margins which will be earned by the Franchisee will allow him/her sufficient return for the financial commitment, risk, personal labour, etc. At the same time if the Franchisor does not obtain sufficient income it will be unable to keep upgrading the System and Business Opportunity and provide the marketing, training and field back up services. The Franchisor must earn sufficient profits to be able to recruit, train and maintain a team of quality professionals at Headquarters. Without the profit incentive neither the employees nor the shareholders of the Franchisor will retain their dedication to the business.

To assure the long term profitability of the business - both for the Franchisor and Franchisee - the Business Opportunity which is being considered must have a real and lasting value to the customer. Unless a value-for-money market need is being met, the business will be unable to build and maintain a customer base which will provide it with profitable repeat business.

Q: I feel that my Franchisor should be doing more to motivate me and the other Franchisees in our System. What words of advice would you give to my Franchisor?

A: From your question it seems to me that a few words of friendly advice could prove useful to both Franchisees and Franchisors.

To some extent it is surprising that a Franchisee should feel so strongly that he/she need to derive their motivation from the Franchisor. The Franchising Concept is founded on the energy and burning ambition of the individual Franchisee to achieve financial security and sustainable business success. It is assumed, therefore, that the Franchisee will be a self-starter who does not need to be pushed or prodded to set himself ambitious business targets. The economics of Franchising are structured to achieve greater efficiency in the management of the distribution activity through the reduction in the number of layers of supervisory management which had been typical of the corporate hierarchy. On the other hand, one of the functions of the Franchisor is to lead the System. All successful Franchise Systems have received their sustenance from strong HQ management, co-operation with the Franchisees and visionary leadership from the Franchisor. Only the Franchisor has the long term responsibility and long term mission to navigate the difficult seas of economic and business change and create the infrastructure which will try to assure a smooth evolutionary development of the business opportunity and the management of the Franchise. This statement does not mean to undermine or underestimate the huge contribution which each individual Franchisee can make and should want to make to the progress of the Franchise. It does, however, highlight the division of responsibility which exists between the Franchisor and Franchisee and needs to be recognised for the concept to operate productively. It is a pity that your Franchisor is failing to establish an open and effective channel of communication with all the Franchisees. The Franchisor should seek to involve all Franchisees in the progress which is being made, without in any way diverting the individual Franchisee from the function of serving the needs of the customers.

The practical next step for you could be to contact the Franchisor and fix an appointment to go to HQ to meet with some of the senior managers. Please share with them your desire and your colleagues wish to see closer working relationship between Franchisor and Franchisees and let them understand that you and your fellow Franchisees are seeking greater leadership from them. I agree with the sentiment that the Franchisor should be very ambitious for the success of his Franchisees. I also agree that the Franchisor should play a role in galvanising the Franchisees to greater and greater success. Nevertheless, we have to be careful not to confuse this role with another role which could be termed as being a nurse-maid to the Franchisees. I am sure that your preference is for a Franchisor who is passionate about his business, has a vision for the future and is able to carry the Franchisees forward through quality management, quality Systems and professionalism.

Q: In my Franchise the Franchisor supplies the Franchisees with all the ingredients and materials. Recently, I discovered that the Franchisor has a very high mark up on the supplies which I could purchase for less and with higher specifications from a third party. What is the best way to deal with this problem?

A: As with all matters of disagreement, question, dispute or outright conflict of interest - the best way and the most cost effective way, is to approach the Franchisor directly and discuss the problem openly and with good intentions.

The Franchisor is entitled to charge on-going fees and the Franchisor is entitled to enjoy a mark-up on goods sold. In fact, the Franchisor is entitled to exercise whatever terms and conditions are set, agreed and enshrined in the Franchise Agreement and Operation Manuals. Nevertheless, it is not always good business to be greedy and a good Franchisor, with a long term view of the business, is not likely to design a package which will be unattractive to prospective Franchisees.

Afterall, the basis of the Franchise Relationship is a successful business relationship too. Each party has to be able to obtain sufficient reward for its vision and effort. The Franchisor will be willing to obtain less absolute profits from a Franchised distribution network but also expect to invest less in establishing it and monitoring its success. The Franchisee too has to be satisfied that as long as he follows the System of the Franchisor with dedication, determination, energy, etc he will be able to secure profitable success. What the Franchisee should be looking for is his own bottom line. If this meets the business potential and the business potential meets his expectations - the Franchisee should be satisfied regardless of the perceived higher level of Franchisor income.

The question of product specification is very interesting. Is the Franchisor really at fault for accepting lower specification or in such a specification adequate in order to provide a quality product? You need to meet with the Franchisor and discuss your concerns with him.

Every Franchisee should want to be part of a successful Franchise where the Franchisor has a good income stream. Only a successful and profitable Franchisor can support on-going R & D programmes, marketing initiatives, good quality support staff, etc. What is a reasonable margin? When you add up the total of the on-going fees and the product margin and relate them to System turnover does it total around 15-20%. If so, I don't believe that this total **gross** income should be seen on its own as excessive. Naturally, if the successful

Franchisees are unable themselves to achieve at least a similar **net** margin on turnover it may be that the business is not strong enough and will not attract new Franchisees. The best way to set your mind at ease is to communicate your concerns directly with the Franchisor. Possibly, you could go to meet the Franchisor together with another successful Franchisee who shares your views.

Q: Our Franchisor is fairly active in producing marketing tools for the Franchisees to use, but, we the Franchisees do not agree with the quality of the work on offer and many do not use it. What can we do?

A: The secret to successful Franchise Systems and profitable Franchisees is in an open and on-going communication and co-operation between Franchisor and Franchisee. Only through talking openly with the Franchisor and the sharing of ideas can matters and aspects of disagreement be settled constructively and positively.

It is important, however, to restate here that it is the Franchisor who is in-charge of the System and therefore it should be the Franchisors overall vision for the business which drives it forward. The leadership for the Franchise should come from the Franchisor and it should be the Franchisor who understands the greater potential of the market and delivers the tools necessary to capture the desired share of the market. Nevertheless, it goes without saying that the individual Franchisee has a most valuable role to play in understanding the needs of the local market where he operates and the impact of the marketing programme on it.

One way to move forward is to suggest to the Franchisor the establishment of a small advisory group of Franchisees [preferably successful franchisees] with a proven marketing flair [or even previous professional marketing experience]. This group could meet with the Franchisor's marketing staff to discuss the marketing vision of the Franchisor and examine in detail the productivity of existing marketing tools. Hopefully, a spirit of co-operation and constructive input will be established. The Franchisor must not be made to feel threatened by the approach from the Franchisees. The attitude should be one of greater 'partnership'. It may be useful to invite third party advisors [if such are being used by the Franchisor] because their presence may offer a wider dimension to the gathering. Franchisees should remember that the Franchisor's tools are expected to meet the needs of a wide variety of locations and different stages of development of Franchisees. Therefore, not all the tools will be suitable for all the Franchisees all of the time. The important aspect is that there should be enough diverse tools for Franchisees to use in order to meet the changing needs of their markets and their own growth.

Please remember that a great deal of stress and strain is created in Franchise Systems because of the different perceptions of Franchisees and Franchisors regarding the use of the marketing funds. It is all too

easy to damage or even destroy the good yet fragile relationship which has been established between Franchisor and Franchisee over the Franchisor's marketing activity. Therefore, both Franchisees and Franchisor need to take extra care not to allow minor differences of opinion or rather lack of clear communication to deteriorate into open conflict.

Q: Can a Franchisee make 'real' money or are the scales tipped substantially in favour of the Franchisor?

A: In many Franchise Systems the scales are in fact 'tipped' to the benefit of the Franchisee. This does not mean that the Franchisor is not intent on making real money. It means that the Business Opportunity is good, the Operating Systems are good, the training and marketing services are good, etc. The rest is up to the Franchisee himself/herself. For a Franchisee to be successful in business he needs to examine, understand and emotionally accept the following elements:

- 1.1. The Business Opportunity - the Franchisor is responsible for identifying a profitable business opportunity. The Franchisor is expected to test the concept in the market place and prove that it can meet customer needs and expectations. The Franchisor has to prove that money can be made by delivering a service/product to the end user.
- 1.2. The Franchisor has the responsibility to develop an Operating System which will have captured the method of doing business and delivering satisfaction to the customer. The Franchisor is responsible for up-dating both the Business Opportunity and the Operating System which helps the Franchisee deliver it. The Operating System includes training both for the Franchisee and when applicable his/her employees.
- 1.3. The Franchisee has the responsibility to absorb, digest and implement the Operating System developed by the Franchisor and thereby deliver a valuable service/product to the customer. The real test whether the Franchisee will make 'real' money therefore depends only on him and whether he has done his homework. As long as the Franchisee has invested the time necessary to investigate and select the appropriate business opportunity - the one that matches his skills, financial resources and ambition - the opportunity to make real money is there. The second part is the extent to which the Franchisee is going to implement the Operating System of the Franchisor. The energy, dedication, determination and professionalism of the Franchisee at the sharp end are the determining factors in the eventual success. The Franchisor has 'delegated' the activities at the customer interface level to the Franchisee. It is the Franchisee who will 'bond' with the customer [or not as the case may be]. Therefore, as long as you have taken the processes of selecting the Franchise Opportunity and delivering customer satisfaction seriously - you should have little worry about making 'real' money by being a Franchisee.

Q: What are the three most important aspects which will decide the success or failure of a Franchisee?

A: As in all business activity the most important element in the success of the enterprise is the attitude of the owner himself. If the Franchisee is lacking the 'can-do' mentality or is unwilling to invest the enormous amount of effort which will be required to build and maintain the business or is incapable to learn the systems and method of operation and keep adapting as they change or simply does not understand that the most important person in the world is the customer - everything else becomes simply secondary and of fairly little significance.

Therefore, I would list the 3 most important elements as follows:

- 3.1. The Franchisee and his attitude.
- 3.2. The business opportunity - the industry which you have selected [for example Printing, Hamburgers, Drain-clearing, etc].
- 3.3. The Franchise Company - The Franchisor, his Systems, his attitude, the quality of management, his vision, the Franchisees they select, etc.

Q: Who can I turn to for advise before making the decision which Franchise to join?

A: The most important person in the selection process of a prospective Franchisor is actually you, the prospective Franchisee. It's your ability as a budding Enterpriser which is being tested to the full. You will have to assess the people you meet, understand the business opportunity, read the documentation, seek references and talk to existing Franchisees. It's your money and your future which is being put at risk and you must assume full responsibility for the decision making process. Having said all of the above I agree that you **must** also seek input and advise from third parties. You can get free booklets from most of the Clearing Banks and some bank managers may be able to offer a knowledgeable view of Franchising and possibly comment about specific Franchise companies. However, more often than not unless the Bank Manager asks for current written input from the banks' Central Franchise Unit the information which you may obtain will be flawed. In order to understand the business opportunity better it will be very useful if you asked a knowledgeable accountant to look at the estimated potential projections which the Franchisor may make available. The accountant could also analyse the Franchisor's own Accounts in order to assess the viability and financial strength of the Company. A financially weak Franchisor may not be around to give you the benefits of the economies of scale and the on-going updating of the Systems. A knowledgeable solicitor, especially one with previous experience in Franchise matters, will guide you through the maze of the Franchise Agreement. A good Franchise Company will have a strong Franchise Agreement which will give it the muscle to keep the standards of the Franchise high and restrain recalcitrant Franchisees from damaging the credibility of the whole chain. An experienced solicitor should be able to highlight the benefits and warn you about suspect practices.

Q: Can a Franchisee become a Franchisor? Should a Franchisee aspire to become a Franchisor?

A: Many Franchisees think that the life of the Franchisor is much easier. As a Franchisor, the argument goes, you don't need to serve customers all day long and all you have to do is collect and bank the fees which the Franchisees send in. Well, life is not that simple for any of the Franchisors.

A good Franchisor with a substantial Franchised network is constantly busy dealing with Franchisee enquiries, helping Franchisees with problem solving, visiting Franchisees in the field, updating the Operating Systems, conceiving and implementing marketing concepts, hiring and training corporate staff, training Franchisees and staff as well as engaging in the multi faceted work which is associated with the recruitment and launch of new and/or replacement Franchisees. From personal experience I can say that being a Franchisor is the most complex, time consuming, exhausting and exhilarating job I have ever done. A Franchisor needs to be an expert in many fields including, finance, marketing, training, property, the specific product knowledge of the industry and not least in the dynamics of people relationships i.e. what makes people operate within a Team successfully.

There is no reason why a successful Franchisee could not invent a new Franchise Concept or acquire from the UK or abroad a proven Franchise Concept. The experience of being a successful Franchisee will have increased your financial resources and has given you an insight into what is needed to build a successful Franchise. The scale of the activities of the Franchisor, however, is much wider than that required from the Franchisee and this fact should be taken into consideration.

Q: I have been investigating a new Franchise Opportunity which looks interesting. However, the 'Franchisor' Company is so new that it does not even have a pilot unit in operation. Although there are a number of independent businesses offering a similar product there is no Franchise Company in the field other than the one I have been investigating. Should I take a Franchise from them?

A: The essence of Franchising, from a prospective Franchisee point of view, is the knowledge that the Business Opportunity which they are considering is proven and successful in the market place. The prospective Franchisee should be ready and willing to pay an on-going fee for the use of the Franchisor's System because it is a successful and profitable System. The prospective Franchisee should be able to determine for himself that as long as he/she are ready to follow the System as prescribed by the Franchisor i.e. with energy and integrity, they are likely to be as successful as other Franchisees who are already operating within the Franchise. Unfortunately, the situation which you are describing does not match those expectations.

The position which you describe seems to be one where a business person has identified a market niche where non-franchised businesses are already operating and where they 'think' a Franchise operation could be successful. Although they might be correct with their evaluation of the opportunity, how can they prove to you without a pilot unit that the end result will offer the margins required and bottom line profits needed? How will they be able to offer you the opportunity to duplicate the Systems already in use if they have yet to develop them in the first place?

We must not confuse the situation which you are describing, where your decision should be not to proceed, with the circumstances of a new indigenous Franchise or an imported concept from abroad. At times prospective Franchisees will be attracted by new concepts and new ideas. Franchising is an industry which is led by enterprise and energy. The dreams of Franchisees and the visions of Franchisors when joined together make new business opportunities materialise. However, in each instance the prospective Franchisee must be able to examine the record of performance in the local market place. Naturally, joining a new Franchise Company, even if it's one which has taken a Master License from a successful foreign company, carries with it a greater risk. It is never certain that even if the concept has been proven through at least one Pilot Unit in the UK that the Franchise management will be able to attract enough good quality Franchisees, or compete successfully in the market place with the

independents or manage the complex Franchise Relationship successfully.

The UK requires a successful small business community and Franchising is certainly an excellent way for individuals to become successful in business. But, if the 'Franchisor' has not yet been able to demonstrate success it should be looking for equity partners and not Franchisees.

Q: What are the three most important aspects in the Franchise Agreement from the Franchisees point of view?

A:

- 1.1. The Franchisee has to satisfy himself that the license which he obtains from the Franchisor grants him the right and privilege to use the Franchisor's successful Systems and Business Format for a definite period of time in exchange for a one-off up front fee and an agreed percentage of the sales turnover. To make sure that the Franchisee will be able to operate the System professionally and profitably, the Franchisor should undertake to make a training programme available to the Franchisee and possibly some of his staff too.
- 1.2. In order for the Franchisee to be able to continue and develop the business opportunity in his market and enjoy the fruits of his labour in full the Franchise Agreement should offer the Franchisee the option to renew the Agreement for a further period on reasonable commercial terms. The Franchisee needs to recognise that the Franchisor is likely to refuse the exercise of the option if the Franchisor will have judged that the Franchisee has either brought the Franchise into disrepute or failed to implement the Systems and Business Format properly or regularly failed to meet his contracted obligations to the Franchisor - which includes paying the fees on time.
- 1.3. At some point in time all Franchisees wish to exit the System. At the very least it will be the passage of time which will dictate the need to move on. The Franchise Agreement must state clearly that the Franchisee has the right to sell the business to a willing buyer and retain all the proceeds except for a payment of a reasonable fee to the Franchisor for the administration of the sale and a commission for the introduction of a buyer [if applicable]. This right to sell the business will be subject to the Franchisor retaining an effective veto over the sale because of the need by the Franchisor to investigate the prospective Franchisee and assess whether he/she qualify to join the Franchise. The criteria which the Franchisor will apply to all prospective Franchisees should be, as far as possible, identical. The Franchisor may retain a 'right of first refusal' to buy your business. However, the Franchisor will then be required to pay the same price as a willing and able third party buyer has contracted to pay.

Q: It seems that the Franchisee-Franchisor relationship undergoes periodic tensions and strains, is there sufficient effort being undertaken to study and understand why this is happening and how best to deal with it?

A: It is interesting to note that despite the fact that Franchising is such an important economic development tool the academic interest in Franchising has been rather limited. Even in the USA where Franchising is said to have created direct employment for 5 million people the quality and span of research into Franchising is tiny. Possibly, the reason has to do with funding. Much of US academic research is either sponsored by companies and/or Government. Most Franchise companies by their very nature are fairly small entrepreneurial organisations with neither the vision nor the resources to sponsor Franchising research. They are busy trying to expand, face the competition and deliver quality service to their Franchisees and the market place. The giants of Franchising, on the other hand, are probably only interested in their own business and possibly not keen to share their expertise with their competitors - whether they compete for Franchisees and/or in the market place.

I agree that it is imperative that in-depth objective yet informed research into Franchising should take place. I am convinced that much of the tension and conflict which does emerge from time to time is a result of misunderstandings and misconceptions about Franchising. Both Franchisors and Franchisees need to understand their respective responsibilities and how best to discharge them. Franchising is about sharing markets, risks and responsibilities. Once mature business people understand the formula it is easier for them to stick to it. Conflicts arise from frustration and frustration is often the result of false expectations. Research will be able to tell us how current Franchisees and Franchisors see their roles and why they succeed or fail to maximise the potential benefits. On the basis of this information new behaviour rules and more productive activity plans could be devised. I am very optimistic that with the proper study and research we can move Franchising forward at a great pace.

Q: What is the 'secret formula' for success in Franchising?

A: It's difficult to talk about a 'secret formula' because everything in Franchising is quite transparent. However, there are a number of elements which the Franchisee and Franchisor need to deliver in order to succeed and to maintain the pleasure and benefits of success over time. The Franchisor's responsibility is to conceive and structure the particular System which will allow the Franchisee to deliver the services which the particular business opportunity specialises in. The Franchisor will develop marketing tools and training modules to be exploited by the Franchisees. The Franchisor will also have HQ people with the skills to interface with the Franchisees and act as guides to the System.

The individual Franchisee will only succeed if he/she understands that to succeed they must employ the Franchisor's given System to the full. They must use the marketing tools, they and their staff must take advantage of the training and they must enjoy providing, servicing and satisfying the needs of the customer. The 'secret' of Franchising success is that there is no 'secret'.

But ultimately the degree of success is almost solely based on the Franchisees willing to follow the well proven system - which the Franchisor **must** continue to upgrade. The whole concept is based on the division of responsibility between a good Franchisor and a good Franchisee. When both parties understand the 'bargain' which they have struck and deliver it with energy, enthusiasm and responsibility - success is almost inevitable.

Q: I prefer to use my own marketing ideas rather than those available from the Franchisor. Am I wrong?

A: Your marketing ideas could be real gems, but, this is not the main issue here. As a member of the Franchise System you are expected to broadcast the full Corporate message to your local market place. One of the main strengths of the Franchise is the Branding and branding is established only through the provision of a consistent message. This does not mean, however, that the Franchise System stifles creativity or that Franchisees are not encouraged to experiment and seek to contribute from their creativity. What is needed is an open channel of communication between Franchisee and Franchisor so that ideas will flow in both directions. Nevertheless, the Franchisee must use the Corporate marketing concepts and tools in order to maintain the consistency of the message. The Franchisee can experiment with ideas but without diluting the overall corporate image. When the Franchisee identifies a new and improved way of doing things the best way forward is to share this with the Franchisor so that the HQ personnel could invest in testing it on a larger scale.

There is no question that the input from Franchisees about the needs of the customer and the tools which could help meet those needs is an essential part of the success of the Franchising Concept. Yet, it certainly does not mean that each Franchisee should go his own way. A balance must be maintained between the corporate marketing products and the local experiments. If you are a professional marketing person or especially gifted with practical marketing ideas, hopefully, your Franchisor will have identified the talents and will have established a close working relationship with you in order to tap the value for the benefit of the whole Franchise.

Q: A handful of Franchisors are offering a reducing scale of Management - Services fees [on-going Franchise Fees]. It sounds attractive to a prospective Franchisee. What is your view?

A: A very small number of Franchise Systems offer to reduce the scale of fees which the Franchisee pays them either after a few years of operation or once the level of sales generated by the individual franchisee goes over a certain threshold. My personal view is that the Franchisee should be less concerned by how much he/she are paying the Franchisor and be more interested with how much is left in their pocket. This means that the prospective Franchisee should examine the business opportunity overall rather than be attracted to a lower fee structure. The net profits which the business can generate for you is the crucial factor.

The questions you should ask yourself are; will I be able to make more profit overall by choosing one business opportunity over all the others? What are the additional risks I am taking by choosing the lower fee operation? Is this Franchisor as powerful as the others in his industry? Sometimes you will find that the people who are offering the lower fee scale have to do so because they are the weaker players in the industry. It is important for the long-term success of a Franchise System to have a successful and profitable Franchisor. Only a profitable Franchisor will have the cash to re-invest in the business. Every business needs to invest in research and development. Building, protecting and expanding the Brand is an on-going responsibility of the Franchisor. If the Franchisor cuts/reduces the level of income which it obtains from the System that Franchisor will have less cash to pay for HQ personnel, marketing, R & D, etc. Choose your business opportunity by reference to the industry, the market place, the value of the product/service, the strength of the Franchisor and your profit opportunity. Don't worry about paying lots of Franchise Fees as long as you are left with lots of profit too. Since the Franchise Fee is always only a small percentage of your sales the more you pay the more profits you should be retaining too, if you operate the business professionally.

Q: **Apart from the initial franchise fee what are the hidden costs, if any?**

A: The initial fee charged by the franchisor is normally only a one-time payment and is seldom (in absolute) a very large amount. It is also legitimate for the franchisor to earn further income from the sale of items which constitute the initial package purchased by the franchisee from or via the franchisor whilst setting up the business.

It is important, however, that this income does not make the cost of the equipment higher than that which the franchisee would pay were he/she to purchase it on the open market. The franchisor should be able to negotiate bulk discounts and be in the position to pass valuable discounts/savings to the franchisee whilst still earning some income for to set up a head office operation and offer support resources to its franchisee's. It is unlikely the individual franchisees will receive support services directly from the foreign franchisor nor have recourse to it should the local Master Licence holder or Master Franchisor fail.

Therefore, if the Company which you are approaching is a young Master Franchisor you would be wise to enquire about the success of the foreign franchisor too. In fact, a new Franchise Company operating under licence from a successful foreign franchisor is in theory in a better position to offer value for money than a new local franchisor with no access to the pool of expertise which should be available to itself. You could ask the franchisor for the details of their policy on income to be earned on equipment and supplies which are provided to the franchisees. You should also ensure whether you are free to buy equivalent products on the open market if you choose so to do because of cost savings.

Q: Some people portray Franchising as an ‘umbrella’ which the Franchisor opens, to protect the Franchisees. Is this your view too?

A: Every enterprise has to face the ‘elements’ of business life. Franchising is no exception. The Franchisor, even the best one, is unable to impact, for example, the level of interest rates which The Bank of England and the Chancellor of the Exchequer agree to enforce. Nor can the Franchisor shelter the Franchisee from legislation which aims to protect the environment, or, labour legislation [such as the European Social Chapter] etc.

What the Franchisor can and should do is develop a Business Opportunity which is successful in the market place. The Franchisor is responsible for identifying and constantly updating the product/service which the customer [end user] is willing to purchase repeatedly and at a price which allows the Franchisee to make a decent living. The Franchisor will produce the System and tools which the Franchisee will need to use in his/her daily interaction with the customer. The Franchisor will further train, educate and motivate the Franchisee to ever more professional and productive effort.

In other words, the Franchisor will not be able to shield the Franchisee from the ‘elements’ but will be willing and able to train the Franchisee and provide him with the tools which will allow the Franchisee the skills and expertise to face the ‘elements’ with greater professionalism and confidence. Therefore, as far as I am concerned, in Franchising the good Franchisor will be ‘implanting’ a small pair of invisible wings to each and every one of his Franchisees. Thereafter, the Franchisor will try his best through continuous education, leadership and motivation to help the Franchisee learn how to stretch the wings, build the muscles and learn to fly. The good Franchisor when provided with a good Franchisee, will help the Franchisee aim higher and reach higher. The combination of a good Franchisor and a hard working, hard learning and customer oriented Franchisee will result in a far greater and more lasting business success.

Q: My Franchisor produces marketing tools and concepts which he expects the Franchisees to implement and use. Is this the norm?

A: One of the strengths of the Franchising Concept is the centralised marketing activity which is conceived by the Franchisor. A Franchise System is basically a distribution network which is distinguished from the competition by its branding, image, quality of service and marketing. A one unit independent businessperson rarely has the financial resources or the skills needed to make an impact on the market where he/she operates by way of consistent market building and professionally created activity.

A good Franchisor will be investing money and management time in determining the market position the Franchisee should occupy and develop long, medium and short term policies to deliver it. The Franchisees have a crucial role to play in the overall context of building the brand because of local activity which they are expected to carry out and the importance of how they incorporate the standard Corporate Image into their local activity.

A good Franchisor will seek input from his Franchisees for a wide range of activities including Marketing. The ideas and comments received from the Franchisees will be assessed by the Franchisor and when appropriate incorporated into future programmes. The Franchisee should not feel aggrieved, however, if his ideas are not utilised right away. It is the responsibility of the Franchisor to decide the direction of the Franchise. Some Franchisors will agree to Franchisees originating their own local activity as long as they implement all the Franchisor's marketing tools too and as long as their 'own ideas' are not in conflict with the long term vision and image of the Franchisor.

**Q: What is the role of the Field people my Franchisor employs?
How should I view them?**

A: The good Franchisor will be developing the System of his individual Franchise and offer training opportunities to allow the Franchisees to acquire the understanding and skills to implement them. In addition, the good Franchisor will invest in trained field people who'll contact and visit the Franchisee on location to add some on the spot training but mainly to assure themselves that the Standards of the System are being maintained. In some Franchises e.g. Fast Food, the Franchisors' reputation can quickly be destroyed by one Franchisee failing to keep to the required hygiene standards. A Franchisee who fails to adhere to the System in a good Fast Food operation is likely to be disenfranchised very quickly if the required remedial action is not implemented forthwith.

The field people are there to help you maximise your business opportunity in the specific market. They are trained to understand the business and spot irregularities. It will be a mistake to see them as spies and view them as protagonists. It is true that occasionally they'll call to your attention transgressions in the way you operate the business. However, what they are trying to do - on behalf of the Franchisor - is help you take the course of action or actions which is more likely to guide you to greater stability and profitability. It is important to remember too that the field people are employees of the Franchisor and not independent business people like the Franchisee. Therefore, treat them with professionalism and respect. Good people will respond to this approach and be even more dedicated to guide you to success.

Q: It is my feeling that our Franchisor is not interested in input from the Franchisees. Is this the norm?

A: The norm in a good Franchise is that the Franchisor seeks to encourage the Franchisees to contribute ideas and 'best practice' experience. The Franchisor will only be able to update the System and the tools used to deliver value to the customer by referring to the experience of his Franchisees. At the same time the individual Franchisee should not expect that every idea offered to the Franchisor will necessarily be taken up and implemented right away. Some ideas will never be implemented. Other ideas will take time to filter their way into the System. The Franchisee, each Franchisee, should share his ideas and 'best practice' experiences with the Franchisor as a matter of routine and forget about them. The mere fact of sharing the idea should give the Franchisee the satisfaction of a partnership, when an idea is actually adopted it will be a second and equal pleasure.

Q: When visiting Franchisors [during the research phase] the prospective Franchisee is able to discuss potential profits. Does this mean that the Franchisor is legally committed to the achievement of these potential profits by each of his Franchisees?

A: The answer must clearly be no. An ethical and professional Franchisor can't be held responsible for the specific profit performance of each or any Franchisee in the System. What an ethical Franchisor would do during the research phase is share with the prospective Franchisee some data on performance achieved by some Franchisees and possibly provide numbers which show possible relationships between sales and the various costs associated with delivering the suggested sales. The Franchisor should accompany each such sharing of information with written disclaimers which make it clear that the Franchisor is **not** claiming that the Franchisee is likely to achieve these numbers. It is up to each individual Franchisee and his advisors to study the information and decide whether they are confident that the individual Franchisee is willing and able to invest the effort and quality of effort required in order to generate the desired sales and the cost ratios which will be needed to result in the targeted profits. The prospective Franchisee must also meet with operating Franchisees and confirm with them that the proposed financial goals are feasible and being achieved in the Franchise. The Franchisor is only a facilitator. The Franchisor is unable to force the Franchisee to employ the System to the full, to hire the best employees and offer them the training and leadership required to generate the quality of service and product which in turn will meet and exceed the expectations of the customer. The only person able to determine this is the Franchisee himself and therefore it will not be the Franchisor who will determine the level of profitability. Naturally, Franchisors who suggest unreasonable targets [as apposed to ambitious] and unrealistic potential will find that the prospective Franchisee will be told by the operating Franchisees that the expectations are too high and will either decide not to join the Franchise or will scale down the suggested potential projections.

Q: What are the most frequent points of contention between Franchisor and Franchisee?

A: I would like to be in a position to be able to say that there are hardly any conflicts or points of contention within good Franchise Systems. Why? Because I believe that in theory the Franchise Concept shares the responsibility for delivering a product/service to the end user in such a 'perfect' way that conflict should not arise. However, life is never perfect and certainly could not be in business.

The reasons for conflict are mostly related to failure or success. Naturally, if a Franchisor is unable to build a good System and is slapdash in the way Franchisees are recruited and trained, the business problems which the Franchisees will experience will bring about a great deal of conflict and contention. However, even within a successful Franchise System failure and success are the reasons for occasional contention.

Failure: Even within very successful Franchise Systems there are problem and failing Franchised Units. For some reason individual Franchisees are unwilling or unable - despite all the input, guidance and support from the good Franchisor - to meet the challenges of serving the needs of the customer and running a business. It is impossible for the Franchisor to weed out these situations altogether. In fact, sometimes individuals who did reasonably well when starting change their attitude and the business declines fairly rapidly thereafter. A Franchisee who is not doing well can occasionally blame the Franchisor rather than himself - which makes it all the harder for the Franchisor to offer further guidance and direction - and seems determined to select a course of action which will lead to conflict and even litigation. When a Franchisee is not running the credit control and collection side of the business professionally [in say business to business activities] and fails to pay the on-going fees on time, the Franchisor will start putting on pressure for settlement. The request for payment and the imposition of interest on late payment are also elements which at times inflame the Franchisee and impact on the relationship with the Franchisor. However, the Franchisee must understand that the Franchisor can't be expected to act as an unsecured bank and needs the cash flow in order to manage his own business professionally.

Success: It may seem surprising that there is a risk that successful Franchisees - especially those who have been with the Franchise for many years - will start feeling that they are no longer getting 'full value' for the on-going fees and start resenting having to make those substantial payments every week.

It is easy for a successful Franchisee to forget that the System which he/she are using in the running of the business and the Brand under which they are trading are what they pay for. A good Franchisor will never stop making slight modifications and improvements to the System. Often, it is done in such fashion that it might be almost imperceptible as such to the Franchisees. And, yet, over time these changes will accumulate and determine the continuing success of the Franchisees and the Franchise.

As part of the process of change the Franchisor will introduce modifications to the Brand, the packaging, the marketing etc. Not always all Franchisees understand the full reason and rationale for the changes or agree with them. But, to get a large group of individuals with a vast diversity of backgrounds and skills to fully agree on complex issues such as branding and marketing is too ambitious. The Franchisor must, therefore, get on with the work - having consulted and obtained input from the Franchise and individual Franchisees - making the decisions and implementing them. In the long term the results will speak for themselves. However, Franchisees of long standing can be offended when changes take place which either unsettle their long established format of trading or when it seems to them that their individual views have not been given sufficient merit i.e. adopted. The Franchisor needs to try to understand these feelings and deal with them professionally but not allow the process to drag too long because it consumes finite resources and slows the ability of the Franchise to move forward and compete in the market place.

This particular point re-enforces my personal view that Franchisees should only stay in any particular Franchise until they have fulfilled their targeted financial objectives. Too often being part of the Franchise becomes an end in itself. A small business - and all Franchisees are running small businesses even when very profitable - can't afford the luxury of forgetting how competitive and merciless the market place is.

Q: What kind of a relationship is the Franchisee expected to have with his Franchisor?

A: This is probably one of the most involved and important aspects of the Franchise Concept or the Franchise Relationship. For the individual Franchise System to succeed the Franchisor must first establish a relationship of mutual trust and respect with his Franchisees. The economies-of-scale and the accumulation and dissemination of knowledge/expertise which the Franchise Concept embody materialise well only when the Franchisee is eager to learn, absorb and follow the Franchisor with confidence and trust. Naturally, the relationship undergoes a number of changes and stages over the years. Initially, the Franchisee is likely to be highly dependent on the Franchisor through the initial training and the opening sequence of the business. Over the years as the Franchisee will have achieved a higher degree of expertise as well as financial security the perceived level of dependency on the Franchisor will diminish. However, the Franchisees must not let themselves fall into a trap. The trap of conceit. For the duration of the Franchise [as long as he is operating under license from the Franchisor] the Franchisee is expected to continue to employ to the full the System and business tools of the Franchisor. A good Franchise System will continue to develop and expand the System to meet the current needs of the customer. The Franchisee has to watch out that he will not allow the passage of time lull him into a false sense of security. The market place is a tough, demanding and fast moving arena where only the best players survive and thrive. Only by continually following the Systems and guidance of the Franchisor will the individual Franchisee assure that his success will continue until the time to sell the business and maximise the profits has arrived.

Q: What kind of previous experience a Franchisee should have?

A: Every Franchise Company has its own individual Profile for its Franchisees. This profile will have evolved over time and is constantly examined in the light of past successes and failures, as well as, the changing nature of the business. Some Franchise Companies require previous experience in the particular field of operation although on the whole Franchisors prefer recruits without the 'baggage' of preconceptions and trade prejudices. The main personal attributes which the Franchisee must possess in order to succeed in business are: integrity, honesty, enthusiasm, willingness and ability to work extremely hard, team spirit, leadership, commitment, energy, ability to follow the System.

Q: What is the most crucial function of the Franchisee?

A: The Franchisee is basically expected to understand, adopt and operate the Systems of the Franchisor. In most businesses it means the recruitment, training and motivation of staff and the build up of the customer base. If I had to choose one single aspect as the crucial element which is the responsibility of the Franchisee I would not hesitate to say that it is the acquisition and retention of the customer. The Franchisor will have assigned/transferred this function/responsibility to the Franchisee as part of the bargain which had been struck between them. By allowing the Franchisee to share his business opportunity in the specific market the Franchisor has cast his vote of confidence in the ability of the Franchisee to seek, service and meet all the needs of the customer. Without a solid base of repeat customers in each location the Franchise will simply fail.

Q: How do I know if the franchisor is 'playing fair' when dividing territories?

A: Not every franchise company actually grants a fixed territory. The more important aspects are whether within the area where you are going to operate [either from a retail unit or employing a mobile concept] there is a sufficient customer base for your product and/or service. Each franchise system has a different way to measure the number of potential customers which their franchisees are expected to market to. Once again the success of the individual unit will not depend only on the size of the market but on the market share which you manage to capture. The extent to which you manage to penetrate the market will depend directly on the quality and quantity of your marketing and sales efforts.

If the franchisor is willing to discuss with you the formula which he is using to develop markets, and if, the existing franchisees are able to confirm that it works [even though some franchisees would like to have larger marketing areas to compensate for lack of marketing effort] then you could assume that the franchisor is 'playing fair'.

Q: Can one have a significant say in the siting of ones' Franchise?

A: A good franchisor will always be willing to hear your concerns and would be able to offer answers which are based on past experience. At the same time you need to realise that you can't have the same relevant expertise as the franchisor and you need to listen to the points made by him. If we are talking about siting a new retail location especially fast food the answer is that although the franchisor will listen to your comments the location has to be right and availability of good locations is scarce even in a recession. If you are purchasing an existing retail operation, relocation is very expensive and has to be justified. If you are not happy with the location, you can always ask to be offered an opportunity in another market. However if the franchisor concludes that your reservations are not founded and the way in which you express doubts about their expertise is unhelpful, he may decide to reject your application. Nevertheless, if you believe you are right be strong enough to accept the consequences and look for another franchise opportunity which will meet with your level of understanding.

Q: I am a relatively new Franchisee, and have been approached to join a Franchisee Association. The forming of any such association is very much against the Franchisor's wishes. Will joining bring me any benefits and from a legal point of view can the Franchisor stop me?

A: You must always remember that your franchise agreement is a direct, individual and personal contract between you and the Franchisor. You should also decide whether you want to join a Franchisee Association against your franchisor's wishes. But, why is the franchisor taking this negative attitude towards the Association?

If there is nothing explicitly written into your franchise agreement and associated documentation regarding Franchise Associations then I would say that your Franchisor cannot stop you from joining such an association. I would be surprised to find that kind of condition/requirement in any Franchise agreement. I am not a lawyer but I would think that the courts might interpret a restriction as an unreasonable and unenforceable provision.

Franchise Associations should be set up for the sole purpose of working together with the franchisor in partnership for the benefit of the franchise system 'as a whole'. It is important for the individual franchisees to remember that it is the Franchisor who is the ultimate custodian of the System, franchisees have different needs and expectations at different stages of their growth and life-span within the franchise. It is only the Franchisor who has the on-going responsibility to look equally after the interests of all the Franchisees. A well-structured Franchise Association can play an important supporting role to the franchisor. A Franchise Association should be a consultative body - not a contentious or confrontational grouping merely putting forward [in an aggressive posture] claims for and on behalf of Franchisees, taking the present perspective as the only reality. The Franchise has to grow and develop and it's the responsibility of the Franchisor to move the Franchise in the perceived direction - even if it's against the view of individual Franchisees who are happy with the status quo.

Personally, I would not join a Franchise Association which adopted a confrontational approach to the franchisor. Make enquiries to establish their credentials and criteria. Ask for a copy of the constitution of the Association. What are the aims and purposes of the Association?

Q: A number of Franchises run both company-owned and franchised outlets. Is it true that the more lucrative sites are the company-owned sites leaving the Franchisees to scrape a living in the less profitable areas?

A: In principle there is a possible risk that a Franchise which has a large number of company-owned outlets will tend to select prime locations for itself. However, a responsible Franchise company which plans to be in business into the future is unlikely to recruit Franchisees successfully if it offers them only inferior locations which do not allow the development of a successful business. You as the investor will have investigated the available options and will have decided against joining them.

If we talk about retail-based operations it can be that the Franchisor is willing to take on the heavy cost-burden of prime sites which most individual Franchisees could not afford. In this case the Franchisor will be doing the system a favour by extending the exposure of the brand into high visibility sites. A Franchise company which operates a small number of company owned outlets cannot, and should not, be seen as withholding opportunities from their Franchisees.

Q: I have recently been looking into the possibility of franchising and have been surprised to find the fee is renewable after a number of years. Is this normal?

A: In the context of franchising the 'renewable' fee is normally the on-going fee which is also called the Management Services Fee. This levy is applied to the sales turnover of the individual units and is paid 'forever' either weekly or monthly.

The Franchisee is best advised to see it as another cost of doing business. A fee which is paid to the Franchisor as a lump sum at the outset of the relationship is the initial fee. The amount varies from franchise to franchise and is intended to contribute to the recovery of the costs incurred by the Franchisor in setting up the system and, the offsetting of expenditure associated with the process of recruiting new Franchisees.

The Franchisor will extend to the Franchisee a licence to operate the business [Franchise Agreement] which will normally be for approximately 5-10 years duration, with an option to renew [subject to satisfactory performance by the Franchisee].

In instances where the Franchisor Company is properly constructed and is able to generate sufficient income from a substantial body of successful Franchisees there is no need for the Franchisor to charge a new initial fee from existing Franchisees upon the renewal of their licence. If the renewal of the licence is involved in specific costs which are incurred by the Franchisor there could be a justification for the recovery of same, as long as the Franchisor is prudent in its expenditure.

Q: I have been with a successful Franchise Company for many years and have operated profitably without adopting the computer system which the Franchisor has subsequently introduced. Now, the Franchisor is applying friendly pressure on me to 'join' the ranks and incorporate its propriety software into my operation. I am successful and profitable running the business my way why should I have to comply with the Franchisor's requirement?

A: It seems to me that you have been very fortunate. You have joined a successful Franchise Company and are yourself making good money. Your Franchisor is not resting on his laurels and continues to invest in the business and produce new Tools to be used by its Franchisees. It also seems that the computer software has been around for a while but you have been reluctant to make the necessary investment in time and money.

My personal opinion is that you have been unwise to refuse to embrace the software and that your Franchisor has been too lax in enforcing the changes on his Franchisees. I am quite sure that your business will have been even more profitable with the use of the appropriate software. It is likely that you would have more relevant information at your fingertips regarding the performance of the business. It is quite likely that you could improve your operating margins and overall bottom line. I don't know whether you have any computer system at all and how you are tracking your customer database, doing your accounts and producing your management information. If you are still driving the business by looking at the rear view mirror I am delighted for you in the knowledge that you are still profitable. This may not last for long. Computers are part of our lives and are here to stay. The skills required to operate modern software is not very difficult to acquire. I am confident that your Franchisor provides the necessary training packages. Take the plunge and I promise you a great deal of benefit. In addition, the Franchisor personnel are trained to assess the performance of your business by reading the financial reports produced by their software. Since you can't provide the Franchisor with the relevant information the Franchisor is unable to make the maximum input building the profitability of your business even further. Furthermore, the Franchisor needs to accumulate operating data from all his Franchisees in order to be able to assess trends, developments and identify worthwhile new ideas. If you are such a good operator the Franchisor and the other Franchisees are entitled to learn from your experience. One of the strengths of Franchising is the pooling of success and best practice. Please rejoin the club.

Q: The Franchising Concept seems to be built around the expectation that the quality and integrity of the individual Franchisee will assure the high value which the end user can expect and is entitled to receive. Isn't this expected strength also the potential weakness of Franchising? i.e. when the Franchisor is not selective enough either in the initial recruitment of its Franchisees, or when allowing the Franchised Unit to change ownership. What do you think?

A: Your view of this particular strength and weakness of Franchising is correct. Franchising, like any other business concept, is totally dependent on the quality of the people who operate it. Moreover, because in Franchising the Franchisor transfers the duty for building demand in the local market place to the Franchisee it is essential that each individual Franchisee both understands the weight of responsibility which has been placed on him/her and is willing and able to carry out those duties to the highest standards. I am not convinced that all Franchisees actually understand that the obligation to find customers and build a lasting relationship with them is theirs to carry out and not the Franchisors. No business can succeed without having sufficient numbers of repeat customers willing to buy sufficient quantities of product/service at sufficient frequency to allow the Franchisee the opportunity to generate adequate turnover at adequate net margins so that he/she can enjoy a quality standard of living.

The Franchisors duty is to help protect the value of the individual Franchisees business through selective recruitment and by inviting into the System only those Franchisees who are judged to have the experience and personal attributes which are required for the specific Franchise. The Franchisor is under an obligation to apply these stringent recruitment and selection criteria equally when it is a new unit, a resale of an existing unit to a new owner i.e. new Franchisee, or even when deciding whether an existing Franchisee should be allowed to acquire another unit [new unit or one already in operation] or even when an existing Franchisee expresses a wish to transfer the ownership of his business to a son or daughter.

Your question is one which goes to the core of the integrity of any Franchise System. A good Franchisee will not be able to maximise the benefit of his/her excellent work if the other Franchisees in the System do not offer the customers an equally high quality value and service. The reputation of the Brand will be affected/impaired/weakened by the non-performing Franchisees. Therefore, it is the responsibility of the Franchisor to be vigilant and thoroughly professional when deciding which individuals to take into and/or keep within the Franchise.

Q: Do executives of different Franchise Companies ever get together to share ideas and learn from each other's experience? Do Franchisees?

A: The Franchising Concept itself works best when Franchise Companies involve their own staff and Franchisees in an on-going process of searching for 'best practice' and appropriate 'new ideas' which can be incorporated into the individual businesses in order to assure a higher degree of efficiency, productivity and customer service. Within specific Franchise Companies all parties concerned [Franchisor, Franchisee, Staff] should have a mutuality of interest and all stand to gain from the improved communication and business growth.

Different Franchise Companies can learn from each other, or at least discuss aspects to do with the establishment and maintenance of effective and productive relationships with their Franchisees, effective Franchisee recruitment avenues, availability of funding for Franchisees, how to recruit and train corporate personnel, how to offer effective support to Franchisees and still earn a profit, etc, etc. The Franchisors which are members of the British Franchise Association have many opportunities to meet during BFA functions, the Annual BFA Convention, Franchise Exhibitions and Seminars put together by various firms of solicitors and accountants. Most BFA member companies know each other [the total membership is only 150 strong] and could in theory arrange to get together as often as they wish.

Whether in practice the British Franchise community is benefiting from 'best practice' is a very good question. Personally, I am of the opinion that neither Franchisors nor Franchisees stop long enough to completely understand the 'the division of responsibility' which is really the hallmark of the Franchising Concept. Both Franchisors and Franchisees success rates and satisfaction rates would be much higher if both parties understood and accepted in full their respective responsibilities. Franchisors are responsible for the updating of the 'business opportunity' and the System which the Franchisee uses to build his local business. The Franchisee assumes the responsibility to utilise the System to its full potential in building the market penetration, market share and customer relationship which is necessary for any business to succeed. I agree that more planned activity could and should be taken so that UK Franchisors could improve their understanding of 'best industry practice'.

Naturally, in this process successful Franchisees of different Franchise companies should be invited to participate and offer their views, input and share their experience. How much "cross fertilisation" is going on at present between Franchisees of different systems is an unknown factor to me. The question which could be asked is whether the individual Franchisee has the time to meet people from different Franchises and whether he/she will gain more from spending this time with successful Franchisees from their own System. I would like to hear from Franchisees who have made business contact with people from other Franchises. This will help us to gain some insight into their own experience.

Q: In last months' issue of Franchise World there was an article about the sale of a Franchise Company. What is the position of the Franchisees?

A: Every prospective Franchisee needs to assess both the strength of the individual business opportunity which various Franchise Companies are offering and the viability and stability of the specific Franchise company itself. A new Franchisee who chooses to go with a young Franchise company because of the 'exciting' 'business opportunity' which it is offering is making a business decision which could prove to be a very successful one in the long term or very painful in the short term. Franchisor companies run the same commercial risks of success or failure which other companies are exposed to. The Franchisor has to invest in the management of its internal administration as well as develop and maintain the support systems to guide its Franchisees. This is one reason why it is so important that Franchisees and Franchisors maintain an open, honest and constructive communication. If there are problems they should be discussed in a professional and unemotional way so that minor irritations will not develop into major and costly confrontations which can put the whole System at risk.

The other aspect of which both the prospective and existing Franchisee need to be aware is that in the same way that the Franchisee will want to 'exit' the business at some time in the future so will the founder/shareholders of the Franchise Company. One 'exit' route for Franchisors is to 'float' the Company on a recognised stock exchange. This will allow the original shareholders to sell their shares in an orderly way over time. Normally, a Company which has its shares traded on a recognised stock exchange will also have a professional team of managers to ensure the continuity of the business and its leadership.

Another way to 'exit' the business would be by way of a 'trade sale', which means the Franchisor Company is sold to another Company which wants to either enter the specific business or expand its activities within it. Usually, when a business is successful i.e. the Franchisor business is profitable; the sale of the Company should not mean a major disruption for the Franchisees. The rationale is that if someone is paying good money for the business and its profits, they should be reasonable and responsible about maintaining the relationship with the Franchisees. Nevertheless, in such circumstances it is only natural that the Franchisees should feel anxious about the nature and culture of the people who are about to take over their Franchise System.

From the legal point of view the new owners cannot change the existing Franchise Agreements for existing Franchisees until such time as they come up for renewal [or earlier if the existing Franchise Agreement allows it under certain circumstances]. This fact should be a good reason for the Franchisees to be less apprehensive in the short term. Nevertheless, the best way to make sure that the future is just as bright [if not brighter] than with the previous Franchisor is for a deputation of **successful** Franchisees to meet with the new Franchisor. Sometimes, the new owners are in fact better funded and better placed to guide the Franchise and its Franchisees to greater success. I would recommend for the Franchisees to keep an open mind, meet with the Franchisor as soon as possible and listen to what they have to say and what they are preparing to do. In my view open communication and professional input from successful Franchisees is likely to encourage the new owners to invest more in the business in order to gain more in return.

Q: I have recently been to my first Annual Conference. I found it well worthwhile. How come a substantial number of Franchisees did not attend? Will this attitude affect the development potential of the Franchise and its Franchisees?

A: Building and maintaining mutual respect and trust within the Franchise are essential to its smooth functioning. How else will the Franchisor be able to obtain 'best practice' input from its Franchisees and disseminate improvements to the System and new Marketing tools? Meeting Franchisees face to face needs to be an on-going responsibility of the HQ personnel and the Franchisees themselves. The meetings can take different formats i.e. visits by Field people to the location where the individual Franchisee operates, Seminars and training sessions [either at HQ and/or locally], regional meetings, and National Conferences. The National Conference can take different forms too. It can be annual or bi-annual. It can be a one day affair or extend over a few days - including a weekend. It can be totally dedicated to seminar sessions or it can be almost exclusively for socialising purposes or it can combine both. A well prepared National Conference which extends over a couple of days is a very involved and costly affair for the good Franchisor. It requires an enormous commitment in management time to develop the concepts, seminars and social activity which will be taking place. The planning of the National Conference requires a substantial financial commitment by the Franchisor and the expenditure of large amounts of money over an extended period of time.

The committed Franchisee will come to most [if not all] the on-going meetings arranged by the Franchisor. During these meetings not only will he benefit from the input provided by HQ personnel but also the value of the interaction with other Franchisees is enormous. Franchisees who do not come to the National Conference [or other functions without justified reason] are less likely to understand the System, come to grips with the changes in the System, develop their relationship of trust with the Franchisor and eventually be less successful than their potential. As a result, if a substantial number of Franchisees fail to participate on a regular basis the whole Franchise is going to suffer and its overall development impaired.

Franchisees who are concerned about the well being of their Franchise System should consider talking to absent colleagues and explain to them the importance of regular and whole hearted participation in activities laid out by the Franchisor.

Q: The Franchise I am considering charges royalties and an advertising levy, as well as a mark-up on the product. Is this considered to be ethical?

A: When entering into any business relationship it is the responsibility of the parties to assess the benefits and risks associated with the transaction. On the assumption that the parties have done their homework, enjoy a good reputation and enter into the discussions in good faith the principle that should guide the prospective Franchisee is basically 'what benefits and profits can I gain from operating this specific Franchise opportunity successfully'. Although product mark-ups by the Franchisor have received 'bad press' at times I don't believe that these are unethical in principle. What is either 'unethical' or rather 'unacceptable business practice' is to offer a Franchise Opportunity where the Franchisee despite all his hard work and energy operating the System is unable to earn a decent return for his effort and risk. A Franchisor becomes 'unethical' when the concept is knowingly structured to offer the Franchisor a profit opportunity but not one for the Franchisee. The questions which a prospective Franchisee should ask the Franchisor are 'what are the product mark-ups?' 'what effect will they have on my cost-of - sales compared to the competition?' As long as the Franchisee feels comfortable with the **overall** package and the profit potential the question of product mark-up becomes academic.

It should be remembered that it is in the interest of Franchisees that the Franchisor is successful and profitable. A successful Franchisor can re-invest in building the Brand, in developing the Operating Systems, in product Research and Development, etc. The Franchisor will either get the revenue by way of fees, mark-up or other charges. As long as the Franchisor income formula is clear, allows the Franchisee a profit opportunity, is understood and spelled out by way of full and frank disclosure when the Franchise is set-up there is less room for friction and a reduced risk of mistrust.

Q: What recourse does a Franchisee have if the Franchisor does not provide on-going assistance or support to the level that was identified at outset?

A: All quality Franchisors are pleased to consider and respond to reasonable requests for support and assistance from their Franchisees. In fact, often you'll hear Franchisors complaining that too many Franchisees are **refusing** to take the Franchisors advice and guidance in the employment of the System of the Franchise. At the same time some Franchisees forget that the responsibility for developing the business in their location/area is vested in them and in their staff [if applicable]. The Franchising Concept is entirely dependent on the 'division of responsibility' between Franchisor and Franchisee and can only succeed when both parties fulfil their respective obligations. However, if we assume that in your particular case the expectations of on-going assistance or support which you have from your Franchisor in order for you to be able to develop your business [whether or not these were discussed in detail at the outset] are reasonable may I propose the following course of action: [I am assuming that you have already discussed your disappointment directly with the Franchisor].

- 1.1. Discuss your views and problems with a fellow Franchisee. I recommend that you seek the opinion of one who is successful and able to generate the kind of profits, which you would like to have. This person will have learnt how to exploit the 'business opportunity' and should be able to help you on your way. May I suggest that before you go to the meeting that you list in writing and in detail the kind of assistance and support activities, which you feel you, are in need of. It will help both you and your fellow Franchisee have a productive meeting. A successful Franchisee will not invite you again if his/her time will be spent on listening to your unidentified complaints vis the Franchisor.
- 1.2. Following the meeting with your successful colleague and assuming he/she will have agreed even in part to your list of reasonable needs [did you also make a list of the reasons why he/she is successful?] may I suggest that you ring your Franchisor and ask to set up a meeting. All quality Franchisors will welcome such a request and will listen carefully to the arguments which you will be making in support of your views. The fact that you have met with and obtained the support of the

successful Franchisee [even to a reduced list] will help your Franchisor understand the problem. If your Franchisor is one of the quality Franchisors, I can't see that you will have a problem gaining support for your reasonable requirements.

- 1.3. In the unfortunate and very unlikely event that your Franchisor is unwilling to listen to your reasonable requests [or even refuses to meet with you] may I suggest that you ask a few successful Franchisees to agree to join in with your petition to the Franchisor. Should the Franchisor refuse to meet with this group you'll need to ask your accountant or solicitor to first try and ring the Franchisor for a meeting and if unsuccessful to write and request it. Subsequently, either the Franchisor will agree that your expectations are reasonable and offer the support required or you will need to decide whether you wish to exit the Franchise or take legal steps to try and enforce your expectations. On the whole, I am afraid that if you need to sue your Franchisor in order to get a reasonable level of on-going support the future prospect for you in this specific Franchise System does not look especially promising.

Q: What should I realistically expect my Franchisor to provide in further training and support?

A: I am pleased that you are using the word 'realistically expect' because the success of the Franchise Relationship is based on realism and the realisation that there is a Division of Responsibility between Franchisor and Franchisee.

The Franchisor is fully responsible for the development and updating of the System [which is what you came to him in the first instance for] utilising input from a whole variety of sources and foremost from its operating Franchisees. The Franchisee is responsible for the implementation of the System in the individual market where he/she are operating and the development of a relationship with the potential customer base. In order for you to take full advantage of the System the Franchisor should put together and in place the necessary training modules and manuals to assist you. Whether the training courses will include a facility to train your staff too will depend on the Franchisor and the complexity of the business. The Franchisor cannot be expected to provide on-going training always free of charge and always by HQ personnel. Sometimes, it is more cost effective for the Franchisor to nominate third party training organisations [especially in management training]. The extent to which the on-going training [or further training as you refer to it] is made available totally free of charge or partially subsidised by the Franchisor will depend on the profitability level of the Franchisor. However, one problem which Franchisors who are willing to provide a great deal of further training on HQ premises and are willing to sponsor the cost have to contend with the sometimes cavalier attitude which the Franchisees take to last minute cancellation of attendance. For the Franchisee who wishes to encourage the Franchisor to offer more on-going services to the body of the Franchise there is nothing better than to attend the courses in substantial numbers and then implement the System as prescribed. Such co-operation is certain to assure a successful and profitable Franchise and Franchisees.

Q: I have been advised to contact existing franchisees for information before buying. In my case there are no existing franchisees as it is a new opportunity. What more should I do?

A: The franchising concept is not only an excellent vehicle for the prospective franchisee it is also ideally suited to help new entrepreneurs start new franchise companies. However, although a new franchise concept could offer the opportunity to start on the 'ground floor' and have a wide selection of geographical areas to choose from, the problem could be the verification of the economic viability of the business and the financial integrity of the franchisor company.

You will need to examine the business concept in greater detail, ask for substantial data to verify the success of the pilot units and rely more heavily on the advice of your bank, solicitor and accountant. But, in the end you will have to make a decision based on the total input obtained. With a new franchise the fact that there are no operational employees means that you have to be more entrepreneurial yourself. It is also likely that the franchisor will be going through a steep learning curve himself and will be testing new ideas to evaluate the response of the market place. You need to be strong enough to say no even to an attractive concept, if the evidence suggests that the franchisor and/or the business are not sufficiently prove.

Q: What is a Master Licence?

A: A franchise company wishing to expand the network beyond its country of origin can do so mainly using three formats:

1. It can establish its own franchise operation in the country of destination.
2. It can enter into a joint venture with a local partner. The local company will become the franchisor by way of a Master Licence granted by the original franchisor.
3. It can seek a local person [representing both the management and financial resources] and agree a Master Licence Agreement [normally for a country].

This Agreement will be rather lengthy, as it needs to reflect the requirements and expectations of the original franchisor from the local franchisor.

Remember, the franchise system in each country is expected to be very similar, if not identical, to the one which succeeded in the first place [allowing for essential differences as long as they do not conflict with the original concept].

Q: Is there a maximum level at which royalties can be charged?

A: The payment which the individual franchisee is contracted to make to the franchisor for the duration of their Agreement are more often referred to as management services fees or on-going fees rather than royalties because of the on-going element of service or support facilities which are made available to the franchisee by the franchisor.

The actual level of fees is specific to each franchise system, although the majority will fall around ten per cent of turnover, [including the promotion/advertising element]. Deciding whether a specific level of fees required by an individual franchise system is appropriate has everything to do with the specific business opportunity being discussed and very little with the 'average' rate charged by others. However, a good business person is always investigating alternative options and as such you need to be convinced that the return and income opportunity available to you after the payment of the fees to the franchisor is adequate for the investment and effort which you are expected to make. For example, a very low on-going fee could still mean very little income to you if the business opportunity is a weak one, whilst a much higher fee paid for a superior business potential could result in a much better income for you. Remember, the franchisor is sharing the market opportunity [his market opportunity] with you and will want to obtain sufficient income from the business. You need to be satisfied that after paying all operating and capital costs including the fees you are left [potentially] with an adequate income and return on investment, including the likely increased value of the business which you should be able to realise at the end of the day.

Q: I answered an advertisement in a national daily for a franchise opportunity. After some discussion with the company they have said they would like to sell me a Licensing Agreement. What is the difference, if any between franchising and licensing?

A: The definition of franchising is not to the best of my knowledge a legally binding term. Therefore, the reader is likely to come across many 'flexible' users of the concept [e.g., the franchise which the electorate has to vote for one party or the other or abstain, the franchises which the Government has 'sold' to operate radio and television stations, the franchise which Ford grants to sell a specific range of its cars from a specific location, etc]. I too am concerned with the lack of clarity and to assist developed the idea of system leasing which, in my opinion, is a more appropriate expression for the business relationship and contractual interaction between franchisee and franchisor.

However, strictly and legally speaking the franchisor always grants a license [limited in time and area] to the franchisee to employ, operate and exploit certain 'rights' which the franchisor owns and which the franchisee seeks to benefit from. In this sense there need not necessarily be a problem regarding the specific transaction to which you are referring. Nevertheless, I believe that when we are talking about a business format form of franchising the description of the Agreement as one in which the franchisee is leasing, from the franchisor [for a defined period] a proven system for achieving business success is relevant. The franchising relationship to which we are referring is one where the franchisee is not simply being 'sold' rights or is allocated a geographical area within which it can distribute at will a physical product supplied from a single manufacturer.

We are talking about a detailed 'formula' of doing business which the franchisee is expected to follow diligently to the letter and where the franchisor invests in a qualified team of people dedicated to developing the system, to answering franchisee problems and to the monitoring of franchisee adherence to the delivery of a complete 'product' quality to the end user. The interdependence of the parties is greater in the business franchise format concept and the proper employment of the system by the franchisee is crucial to the success of both parties.

Q: What is the minimum investment fee and how is it calculated and how does it compare to the actual investment?

A: Each Franchise system sets its own initial Franchise fee [upfront payment] requirements. Therefore, it is impractical to talk about a minimum fee for the Franchise 'industry' as a whole. In principle, the initial Franchise fee is calculated to recover for the Franchisor a proportion of the costs incurred in establishing the Franchise in the first place. The expenditure required to evaluate and process the new Franchisee and a profit element to cover the fact that one more location/territory/opportunity to open a company owned unit has been forgone. Remember, the Franchisor has agreed to share the market with you and has given up a commercial opportunity to exploit it himself.

The 'actual investment' I assume to mean the total investment required to set up the operation will once again depend on the specifics of the Franchise. Some Franchises - such as restaurants - could require many hundreds of thousands of pounds, whereas, some of the 'job Franchises' will only call upon a few thousand pounds in total. All the Franchise companies have produced leaflets and brochures which describe the scope of the investment required and the cash contribution which the prospective Franchisee is expected to possess. Furthermore, the face to face interview with the prospective Franchisor is the best opportunity to check out all the numbers. Make sure that you understand the extent of the commitments. Your accountant and solicitor should be able to re-check your figures and verify the information.

Q: I am a Franchisee and have signed a five year contract in which my designated area was clearly defined. However, the Franchisor is allowing another Franchisee to operate within my area. What course of action can I take?

A: The question of territory/designated area could be a complicated one because there are so many opportunities for misunderstanding and disappointments.

- The Franchisor does not agree that he has granted exclusive territories or exclusive designated areas.
- The Franchisor actually authorises other Franchisees [new and existing] to trade in the disputed area.
- The Franchisor has 'given' very large areas in the early days of the Franchise, which the Franchisee is unable or unwilling to develop which leads the Franchisor to approve other Franchisees to trade in the area or parts of it.
- A neighbouring Franchisee encroaches on the 'designated' area because he believes it's within the area allocated to his Franchise. This could happen when the 'designation' is imprecise.
- A Franchisee decides to trade in the 'designated' area without the approval of the Franchisor because he perceives the operating Franchisee to be complacent and because he sees a business opportunity being wasted.
- The Franchisor is too weak to tackle the 'overly ambitious' neighbouring Franchisee and curtail his activity and possibly is pleased to see you being put under pressure to exploit your area and its potential much more aggressively.

Q: What is an appropriate term for an [Franchise] Agreement to run in order to see some return on my investment?

A: The cost of the Licence-Fee itself will vary between the different Franchise Systems [Companies] as well as the overall investment required to set up and develop the individual unit. Therefore, it would be inappropriate to try and quote a specific length of time which the Franchise Agreement must offer in order for you to see a return on your investment. However, you should ideally see a good return on your investment, as well as, good compensation for the effort which you will be expected to pour into the building of the business.

The ethical Franchisor will have taken these considerations into account when deciding on the initial term of the Franchise Agreement plus the further option [s] to renew which are written into the contract. However, you need to realise that the Franchisor is basing everything they put in front of you on the assumption that you the investor/operator will adopt the Operating System of the Franchise in full and implement it with energy and enthusiasm, irrespective of the daily trials and tribulations which running a business will throw at you. Therefore, the actual return which you will eventually obtain from the business will depend to a large extent on the way in which you will operate it. In fact, if you set yourself not only annual sales and profit targets but also overall profit/capital targets for the years which you want to dedicate to this particular business opportunity, you should have no problem in assessing for yourself whether you can get the desired rewards within the term of the Agreement. Finally, by visiting operating Franchisees you will be able to find out whether they believe the estimated projections discussed by the Franchisor are realistic. [Here too you will need to assess for yourself whether these Franchisees are following the prescribed System with energy and dedication].

Summary

1. Normally an ethical Franchisor is unlikely to dispute a designated area if the Franchisee is doing a very good job exploiting the potential of the market there.
2. It should not always be assumed that the Franchisor is actually in collusion with the other Franchisee; it could be that he simply does not have the systems to stop it.
3. If you have a valid contract [i.e. your five years have not run out or you qualify and applied for a renewal] which clearly sets out the designated area under contention you should take it up with your Franchisor first. If the response from the Franchisor is not satisfactory you should consider taking legal advice.

Q: I am told that Franchisors should not talk too much about potential profits [in the USA they are forbidden to do so by law]. Existing Franchisees are naturally reluctant to talk to a total stranger about their profits. How can I - a prospective Franchisee - find out the potential profit of the various Franchise Opportunities?

A: There is no simple answer to this particular question. I suppose the best approach is something of a compromise or finding a balance between total silence and uncontrolled exuberance.

The Franchisor could consider asking existing Franchisees to allow him to share with prospective Franchisees [without identifying the location] the audited results of the business. The existing Franchisees are likely to be more forthcoming too about their business success when the prospective franchisee has done his homework and is seen to be serious about their specific Franchise. However, the prospective franchisee is not likely to be able to obtain from existing franchisees exact and complete numbers in a format which could be examined by his professional advisors.

The more practical way, therefore, is to ask the Franchisor to provide [at a more advanced stage of the discussions] the prospective Franchisee with a detailed 'Standard Estimated Projection'. This will be a calculation which will show [without any warranty from the Franchisor] a potential profit based on a '**relationship**' between sales and the estimated costs associated with the acquisition and processing of this turnover. Naturally, the Franchisor will have to make certain assumptions especially on the effectiveness of the Franchisee but with an established Franchise Company it should be possible to find a satisfactory 'relationship' between these elements. The prospective Franchisee could then ask existing Franchisees whether they believe these figures to be realistic. The prospective franchisee will have, however, not only to listen carefully to what the existing franchisee has to say but also to assess whether he/she will be able to operate as well or better [or worse] than the existing Franchisee which they are interviewing. So much in Franchising and its success depends on the on-going commitment and determination of the Franchisee himself. In good Franchise Systems, failure of Franchisees is almost exclusively traced back to that Franchisees failure to follow the System and to heed the good advice of the Franchisor.

Q: To what extent should the individual Franchisee seek to get involved in Franchisee committees or other Franchise wide activities?

A: In principle, it's important for a Franchise System to enjoy the trust and support of its individual Franchisees. Enthusiastic Franchisees who contribute their experience and 'best practice' to the System will assure faster growth and development of the Franchise. However, the Franchisee has to watch out for two aspects which could become detrimental to the growth of his own unit and the Franchise as a whole:

1. The Franchisee has to dedicate all his available time to the building of the business and to meeting the customers needs. Spending time on Franchise activities has to be rationed otherwise there is a substantial risk that the Franchisee will take the eye 'off the ball' as far as his unit is concerned and his business will suffer.
2. The Franchisee has to be very careful not to be caught in 'internal politics' in the Franchise. Internal politics may sound incompatible with the basics of the Franchise Concept and yet it does exist in many, if not all, Franchise Systems. The extent of the penetration of the politics varies and individual Franchisees should do their utmost **not** to allow it to spread.

It is very easy - all too easy - for individual Franchisees to seek reasons and explanations why their own unit is not performing as they would like it to. Reasons which are divorced of anything to do with them and their own effort and focus or lack of it.

All criticism in a Franchise has to be constructive. There is no value in creating divisions and or confrontation between Franchisees and Franchisor. The Franchisees spend more time away from their core duty - Servicing the Customer - and the Franchisor spends huge amounts of time dealing with emotions instead of developing the System. Be careful not to allow individual franchisees with their own personal agenda to conscript others to their cause. Others, who may misunderstand the real and hidden agenda. Unfortunately, once the 'poison' of politics enters the veins of a Franchise System it will eat at the mortar which binds Franchisor and Franchisee together and if allowed to fester will certainly affect the ability of the Franchise and its individual Franchisees to maximise the potential of the business and its contribution to the community.

Q: In your opinion, how many man-days of support should be provided by a Franchisor to their Franchisees within a monthly cycle?

A: A successful Franchise system is one where the established Franchisee does not need nor depend on the Franchisors support in the way that you describe. Naturally, a new Franchisee will require a closer working relationship with the Franchisor because the initial training will only have laid the foundation of skills and expertise. Through the regular contact with the Franchisor [by way of the telephone, workshops, further training, conferences, newsletters, local visits, etc] and practical experience at the sharp end the Franchisee will gain confidence and expertise.

The established Franchisee should still seek regular exposure to the Franchisor but more by way of refresher training, new marketing ideas work shops, technical expertise, and occasional [in a structured way] meetings with the Franchisor to assess progress, go over the business plan and agree the course of activity for the next period.

It is impractical and unnecessary to try and specify the number of man-days of Franchisor support per month or even per year. The needs will change from System to System and from Franchisee to Franchisee. Also, it is unproductive for the Franchisee to try and calculate how many 'man-days' the on-going fees should buy him. The important question is whether the Franchisee has sufficient expertise to service the customers well and profit from the exercise. The Franchisor should always be available both in a pro-active and re-active capacity to offer guidance and training to each individual Franchisee, as required.

Q: With no previous experience in business, would it be 'safe' for me to become a Franchisee?

A: Assuming that you are ambitious, energetic, determined, hard working, honest, enjoy serving customers, are willing and able to follow a System and have the required funding Franchising has 'almost' been invented for you. Naturally, you'll still have to spend a great deal of time and some money in assessing the various business opportunities which are being offered by the multitude of Franchise Companies that operate in the UK. I can't say which Franchise Opportunity will be best for you without having access to your particular circumstances and previous general experience. However, I have little doubt that at least one of the existing Franchise Companies should be able to meet your expectations. You need to have business acumen more than specific business experience, but, as far as the Systems for doing business, these will be provided by the Franchise Company which you select. Don't forget to consult an accountant and solicitor. Also, you can refer to the Franchise departments of NatWest, Royal Bank of Scotland and Midland Bank.

Q: The training offered by my future Franchisor seems insufficient to me. What should I be expecting from them?

A: Did you speak to the Franchisor? Did you express your concerns? A quality Franchisor will be pleased to talk to you about their initial and on-going training programmes. A quality Franchisor will offer the new Franchisees an induction programme which will meet the needs of the business. I assume that you have done your 'due diligence' and investigated the Franchisor's pedigree before you signed the Franchise Agreement.

On the basis that you have joined a quality franchise you should not panic. Please speak to the training department/person of the Franchise and share your concern. They should be able to put your mind at ease. Once you have completed the initial training you have another opportunity to express your views. Should you need further training the quality Franchisor will always make that available - even on a one to one basis. What you should try to avoid is allowing yourself to confront and distract the Franchisor without good reason. The Franchise Relationship is built on goodwill. Only if there are **real** problems should you confront the Franchisor with them. Being a Franchisor is a very demanding occupation [as much as being a Franchisee] and it's important not to waste the Franchisor's time unnecessarily. However, if you have persistent concerns it's better to discuss it with your contact person to avoid a rift building up.

Q: After successfully running a franchise outlet for some time, my market is shifting slowly but surely towards a different type of service. How should I cope with this, particularly if the Franchisor does not agree to incorporate the new services?

A: The question of 'change over time' in any business is a crucial one. No business can survive without sensitivity to the needs of the market and the individual customers. Therefore, I am concerned that either your Franchisor is failing to observe the changes or that you are exaggerating the perceived impact on your own business. I assume that you have spoken to your Franchisor and that they have tried to re-assure you that the existing format is working well. It is not unusual in Franchising for an individual Franchisee to form an opinion which is in conflict with the Franchisor regarding the specific business proposition which the Franchise is offering. At times the format of the Franchise is flexible enough to accommodate both opinions and the conflict is resolved. However, at times the Franchisee decides to concentrate his efforts on parts of the business which the Franchisor knows are less profitable in the long run or put the Franchisee in direct conflict/competition with other more specialised players in the market place.

The best way to resolve your concern is to talk to the Franchisor's marketing people. Please collect data and market information which will support your point of view. Have an open and positive discussion and try to make the case for allowing you to test the new product and/or service. You have to be careful that your business and your profitability do not suffer in the short term as a result of the effort which you put into proving your opinion.

However, you might be right that your Franchisor is slow to move. Often it's easier for a single Franchisee to be 'nimble footed' than for the Franchisor to move the whole System in the new direction. Ask the Franchisor to support your test marketing for the benefit of the whole Franchise. Co-operation is the best way to achieve results in any partnership. Franchising too is a kind of a partnership [not a legal one of course] as the Franchisor and Franchisee are both sharing in the same business opportunity.

Q: This question is from a Franchisor. We have invited a number of Franchisees to serve on an Advisory Committee. One Franchisee is being very difficult and disruptive. What should we do?

A: Firstly, please allow me to compliment you and your Franchise on taking the demanding but rewarding approach that Franchisee participation is essential to the development of every good Franchise System. Only through close association with the individual Franchisees can the Franchisor capture most of the Best Practice experience which is gained by the Franchise. As you have discovered it's not an easy process. Often, Franchisees who are 'political' in their orientation seek to be involved in the Advisory Committees. It takes them away from the demands of the daily routine and for some reason they seem to enjoy giving the Franchisor a hard time. However, if you select your committee members well and use their time effectively, you will find that better quality Franchisees will make themselves available too. After all, time which the Franchisee is spending on committees is time away from the customers and it costs them money. It is the responsibility of the Franchisor to prepare well for the meetings by way of a well thought out Agenda and chair the meetings effectively and professionally.

If you have chosen badly and the individual Franchisee is not willing or able to become productive [I assume you have spoken to him in private about the problem] it is your duty to remove him from the committee. I suggest you speak to the other committee members first so that your action will not come to them as a surprise. They, too, will have noticed his unreasonable behaviour and will not side with him if you handle the disengagement well.

Unfortunately, this Franchisee is not going to stop being disruptive within the Franchise. Therefore, it would be best if through discussion he would agree to try to become more co-operative.

Q: What is the most practical way for our Franchise to benefit from the practical experience which has been gained and accumulated by the Franchisees over the years?

A: The Best Practice experience which has been gained by the operating Franchises is extremely valuable. Every good Franchisor has to try and capture it. However, this may not be as simple as it sounds. Individual Franchisees are not always aware of the slight nuances which they have developed within their own Operations.

I am assuming that on the whole each Franchisee is following the Systems as prescribed by the Franchisor. However, even when operating standard equipment one finds ways to achieve greater efficiency through some operating practices. Sometimes, ways of approaching customers, ways of storing supplies, etc. can enhance productivity and profitability.

The Franchisor's field people have to be encouraged [by the Franchisor and Franchisees] to be on the watch for all Best Practice which they can observe and to capture the relevant information. It is up to the Franchisor to assess the information, possibly test it with a few Franchisees and if proved to be correct incorporate it in the System and advise the whole body of Franchises. It is also very positive if the Franchisees themselves try very hard to capture such Best Practice. Each individual Franchisee could contribute if only he/she were keen on the idea and willing to write information down and send it to the Franchisor.

Q: I want my son to take over my Franchised Unit. However, for him to become the Owner the Franchisor requires my son to be qualified and approved just like any new Franchisee. Is this right? After all, I am the owner of my business!

A: The strength of any chain is measured by the strength of its weakest link. This means that despite the sympathy which the Franchisor will have for your desire to pass-on the business to members of the family your planned withdrawal from the day to day responsibilities will trigger a situation similar to any resale or proposed transfer of ownership. Your son, assuming he has been working successfully in the business, will have the advantage of knowing the business, being familiar with the system and having built a relationship with some of the people working for the Franchisor. Nevertheless, the Franchisor should give your son the opportunity to be interviewed and assessed on his own merits. In addition, the Franchisor will want to ascertain that your son sincerely wants to take over the business for his own sake rather than to please you. The Franchisor will also want to find out whether your son understands the disciplines and responsibilities of a Franchisee. After all, when you made the original decision to approach a specific Franchisor and apply for a license to duplicate the business it can be assumed that you have done your 'home work' and came to the wise conclusion that owning a small business under the umbrella of a Franchisor is a far superior proposition to being on your own as an independent business person. The Franchisor will also want to know the terms under which your son is acquiring the business and to satisfy himself that the business will be viable following the acquisition. As long as the Franchisor is offering your son an honest opportunity to present himself and his credentials you should not worry. Because, if the decision of the Franchisor is that your son can not assume the Business at this time it may be that an additional period of training will do the trick or possibly it would be better for you to sell the business and help your son take up appropriate employment or if he still wants to be in business to direct him to join a Franchise where his skills and aptitudes are more in line with the needs of the business.

Many Franchisors have a clause in the Franchise Agreement which allows them the option to acquire a Franchised Unit when it is being offered for sale. I believe that when a sibling desires to acquire the family business he/she should be given the opportunity to do so as long as they prove to the Franchisor their ability to take over on their own and build the business to greater heights and demonstrate their understanding and acceptance of the disciplines which Franchising expects the Franchisee to assume.

Appendix 7.8

And a Few Additional Questions to Ask

Franchising - A Local Participant in the Global Economy

Chapter Four

4.2 Appendix

And a few additional questions.....

1. Questions to ask yourself
2. Questions to ask your family
3. Questions to ask your friends
4. Questions to ask the Franchisor
5. Questions to ask existing Franchisees
6. Questions to ask the Franchise Solicitor
7. Questions to ask the Accountant
8. Questions to ask the Clearing Bank

Chapter Four - 4.2 Appendix

A few additional questions....

1. Questions to ask yourself -

- Do I really want to own and operate a business
- Do I know why I am considering taking this step
- Have I considered the pros and cons seriously
- Do I want to give up my job for the business
- Am I only considering taking up a business because I have been made redundant
- Is it only because I have no job and my job prospects are not good
- Am I angry at my previous employer and don't want to go through the same experience or is it because I see real advantages for me and my family
- Am I willing and able to take the financial risks
- Do I understand the risks involved
- Am I ambitious, do I want to achieve financial success? Have I quantified what financial success I want? I need? Will the business I am considering allow me to develop the earning potential I am after
- Am I really a hard worker
- Do I have the health and stamina required
- Am I a self starter
- What are my skills
- Am I good with people
- Will I enjoy looking after customers – even when they seem to be difficult
- Do I understand that 'the customer is king'
- Will I do everything necessary to delight customers and exceed their expectations
- Am I a quick learner
- Do I enjoy learning new things
- Will I be able to pick up all the business management tools which are needed to manage the business and its finances
- Will I be able to hire and fire employees
- Will the employees accept me as their leader
- Will I be willing and able to lead the employees by example i.e. demonstrate and live by the same rules I will expect from them
- Will I co-operate with my Franchisor
- Will I co-operate with my fellow Franchisees
- Will I operate an ethical business with a view to building real success based on solid foundations

Chapter Four – 4.2 Appendix

A few additional questions....

2. Questions to ask your family -

- Do they understand the risks associated with the proposal to undertake the Franchise investment?
- Do they understand the potential benefits? Do they think the benefits outweigh the risks?
- Do they understand fully what you will need to do to make the business successful and to maintain its success? Without continuing success the business will not deliver the potential benefits.
- Do they think that you are a hard worker?
- Am I capable of undertaking a task and 'sticking' to it irrespective of the challenges.
- Am I customer friendly? Will I be willing to serve customer needs?
- Can I assemble, motivate and lead a small team of employees? Will people be willing to work with me for longer periods?
- Is the family ready to make the initial sacrifices which will be required i.e. take the risks, reduce spending, possibly sacrifice the annual holidays for a couple of years, etc.
- Are my health and energy levels up to the demands of running a business?
- Am I likely to feel confident within the Franchise environment? Where it is necessary and beneficial to co-operate with the Franchisor and the other Franchisees.
- Will I begrudge paying the on-going fees to the Franchisor? Will this undertaking cause me difficulties?
- Do I really want to own and operate a Franchised business or am I only considering it because I need a new job?

Chapter Four – 4.2 Appendix

A few additional questions....

3. Questions to ask your friends -

- Would you buy a product/service from me
- Am I customer oriented
- Do I have the patience to deal with people
- Will I be able to lead a number of employees
- Will I be able to 'put up' with the need to delight customers
- Do I have staying power
- Do I have the energy required to work hard
- Am I a hard worker
- Am I a fast learner
- Am I open to suggestions
- Am I fixed in my ways
- Do I have sales skills
- Do I make people want to be with me? Can I build relationships
- Am I ill at ease when I first meet new people? Does it take a while to see through to my positive characteristics
- Am I ambitious and success oriented
- Will I make the sacrifices in the short term to gain the long term benefits
- Will my family be willing to share my ambition
- Will my family give me the support I need
- Do they think I will be successful
- Is taking up a Franchise a good idea
- Will I be able to manage the stress
- Do you think the 'business opportunity' I am considering is a good one
- Will you even consider making an investment in the proposed business? Do you think that overall it's a good risk?

Chapter Four – 4.2 Appendix

A few additional questions....

4. Questions to ask the Franchisor -

The following are some of the questions any potential Franchisee should aim to have answered through face to face discussions with a Franchisor before making a commitment

- How long has the Franchise been established?
- How many Franchised units are currently operating?
- Is it possible to talk freely to any existing Franchisees?
- What does the Franchise Headquarters Organisation consist of?
- Can the Franchisor demonstrate its capacity to provide necessary initial and on-going support services?
- Is it possible to take up trade and bank references?
- Are the Company accounts up to date? Will a copy be made available?
- On what basis are Franchisees selected and how selective does the Franchisor appear to be?
- What is the business background of the directors and executives of the Franchisor Company?
- How long have they been directors and executives of the Franchisor Company?
- What is the initial cost of the Franchise, what does this include and what additional capital costs will be incurred in addition?
- How much working capital is required?
- What are the operational cost breakdowns, the gross margins, and the possible net margins?
- What Franchisee earnings are allowed for in these figures?
- What funding programmes are provided through arrangements made by the Franchisor?
- What rate of interest is allowed in the calculations and what level of securities needs to be available to back up the borrowing?
- What fees are charged by the Franchisor?
- Does the Franchisor operate company-owned units?
- Does the Franchisor take commission or mark-up on goods or materials supplied to Franchisees? How much?
- What promotional and advertising support will be provided by the Franchisor and can this be demonstrated?
- What level of initial training is provided and what is the Franchisor's on-going commitment to training?
- Where is training provided and what does it cost?

- What continuing services are provided by the Franchisor?
- Is the Franchisor a member of the British Franchise Association?
- How many Franchised units have failed and ceased trading in the past 2-3 years? Why?
- Does the Franchisor have on-going communication with Franchisees through an independent Franchisee Association or similar?
- How long is the period of the Franchise Agreement? Can it be renewed?
- If the Franchisee is to take a lease of retail premises what is the period and what is the liability of the lease?
- Is it possible to take independent advice regarding the Franchise Agreement prior to signature?
- Does the Franchise Agreement permit the sale of the business and what restrictions are placed on this?
- What happens at the end of the Franchise Agreement?
- What support is provided in the sale of the Franchisee's business?
- What regular communication is there between Franchisor and Franchisees in the form of conferences, seminars, newsletters, etc?
- Is the Franchisee restricted to purchasing on-going supplies from the Franchisor only?
- What assistance does the Franchisor provide in the negotiation of terms with suppliers?
- What restrictions are placed on what products or services can be sold by Franchisees? Does this differ to industry standard?
- What is the Franchisor doing about updating and upgrading the Concept and Systems to meet the challenging needs of the future?
- Tell me about the competition: From franchised and non-franchised organisations
- What are your plans to meet the challenges of the future?

Chapter Four – 4.2 Appendix

A few additional questions....

5. Questions to ask existing Franchisees -

- Are you pleased with your decision to join the Franchise?
- Has the business and your lifestyle lived up to expectations?
- What are the most enjoyable aspects of the business?
- What are the areas of the business which cause the most concern to you?
- What have you found to be the most effective methods for building and developing new business?
- Are you making the profits you anticipated or were projected to make? If not, why do you think you haven't achieved them?
- Did you find the level of initial training and start-up support provided by the Franchisor satisfactory? Did you do it all?
- How confident in the business did you feel when you first began trading?
- What would you do differently with the benefit of hindsight?
- What, in your view, makes a successful Franchisee in this business?
- How has the business affected your family life and to what extent is family support required?
- What are your views about the quality and quantity of on-going support provided by the Franchisor?
- What elements of the support provided have you made most use of or found most beneficial?
- How well do you get on with your neighbouring Franchisees?
- What are the factors which, in your view, most effect the profitability of the business?
- What motivates you?
- Do you think you will achieve your ambitions in this business?
- How would you describe your relationship with your Franchisor?
- Why is this type of business better than others I might consider?
- How would you describe the professionalism and quality of the senior management of the Franchisor?
- How would you describe the professionalism and quality of the support staff of the Franchisor?

- Do you think the Franchisor has the vision and the skills to develop the business and the Franchise Systems further to maximise the potential of the business in the years' to come?
- Is the management of the Franchise stable?
- How well do you cope with the competition?
- If you had a friend looking at going into business, would you recommend they seriously consider the Franchise system that you have?
- Would you do it again?

Chapter Four – 4.2 Appendix

A few additional questions....

6. Questions to ask the Franchise Solicitor -

- How much previous experience have you had with Franchising? Do you have Franchisor clients? Which companies? Are you affiliated with the British Franchise Association?
- Do you know the specific Franchise Company I am interested in? What is their standing and reputation like?
- Are the Franchise solicitors advising the Franchisor a well known and respected Franchising practice? Did they prepare the current Franchise Agreement?
- What is your fee structure? How much do you estimate will you charge for advising me on the Franchise Agreement? Can we agree a fixed fee?
- Is the duration (number of years) of the Franchise Agreement reasonable? Is it different to industry standards?
- Do I have an option to extend the Franchise Agreement? What are the conditions? Are they reasonable? Are they different to industry standards?
- Am I entitled to sell my business at any time? At the end of the agreement? Are the terms reasonable? Are they different to industry standards?
- What are the on-going fees payable to the Franchisor? What are the marketing fees payable to the Franchisor? Are they reasonable? Are they different to industry standards?
- Am I obliged to buy all my supplies from the Franchisor? If yes, are the terms and conditions reasonable? Are they different to industry standards?
- Am I being granted an exclusive trading territory? If not, are the terms and conditions reasonable? Are they different to industry standards?

- Has the Franchisor got an option to buy the business from me? Can the Franchisor only exercise the option when I want to sell? Are the terms of the option reasonable? Are they different to industry standards?
- Is the Franchise Agreement overall a professional and well written document? Are there clauses which I need to be concerned about? Which one? Why?
- Are the Franchisee undertakings in the Franchise Agreement reasonable? Are they different from industry standards?
- Are the Franchisor undertakings in the Franchise Agreement reasonable? Are they different from industry standards?
- Considering that a professional Franchisor will **not** amend his Franchise Agreement to suit the comments of the potential Franchisee do you advise me that the Franchise Agreement is within good industry standards.

Chapter Four – 4.2 Appendix

A few additional questions....

7. Questions to ask the Accountant -

- How much previous experience have you had with Franchising? Do you have Franchisor clients? Which companies? Are you affiliated with the British Franchise Association? Do you have Franchisee clients? From which companies?
- Do know the specific Franchise Company which I am interested in? What is their standing and reputation like?
- Is the firm of accountants looking after the Franchisor known and reputable?
- What is your fee structure? How much do you estimate you will charge me for commenting:
 1. On the financial viability of the Franchisor
 2. The estimated Financial Projections
- From reading the Report and Accounts of the Franchisor Company (are these current enough to be useful?) can you tell whether it is a profitable and viable concern? Can you tell whether they are re-investing in the business to secure its future? Who are the shareholders? Do they have institutional investors? Do the shareholders seem committed to the business?
- On the basis of the published Accounts, in your professional opinion is the Franchisor Company viable enough at this point in time for the purpose of my becoming their Franchisee?
- On the basis of my financial resources and on-going financial needs do you think that I can afford to commit myself to this particular business opportunity?
- Having studied the estimated revenue and cost projections do you have comments to make? Do they seem realistic? Are the assumptions being made reasonable? Are there issues which you wish to discuss with me concerning the estimated business plan for my unit?

- Are the loans and overdraft facilities which the Clearing Bank (s) willing to make available sufficient to allow for the 'inevitable hiccups'? Are the funding terms reasonable? Are they different to industry standards?
- Are the securities which the Bank expects reasonable? Are they different to industry standards? Do I have sufficient securities to offer?
- Do you think that the potential income and capital growth, as seen from the business projections attractive? Do they meet my stated needs? Do they differ from industry standards?
- Is the Accounting System which the Franchisor recommends for the Franchisees to use an effective one? Does it meet regulatory requirements?

Chapter Four – 4.2 Appendix

A few additional questions....

8. Questions to ask the Clearing Banks -

8.1. The Franchise Department during a Franchise Exhibition:

- Does your Bank have a financing scheme for the specific Franchisor Company I am interested in? Why not?
- Has your Bank financed any of their Franchisees? Can you tell me about their track record?
- Will you in principle be willing to finance me, were I to become an approved prospective Franchisee of theirs, as long as I meet your Bank's lending requirements?
- What are your Bank's lending requirements for Franchisees?
- What are the terms of the lending i.e. lending ratios, charges, fees, interest rates, securities, etc.
- Do you have Franchising related literature which I can have?
- Is your Bank keen on 'small business'? Is it keen on Franchising? Why?
- Is there practical advice which you wish to share with me on this occasion?

8.2. Your Local Bank Manager:

- Would he be interested in principle in funding a Franchise business opportunity?
- (It is worthwhile exploring what is his/her opinion on Franchising? Is the approach supportive?)
- Has the branch/the bank had previous experience with Franchising? With the specific Franchise Opportunity? Can the official discuss with you the experience?

- Will the branch be willing to approach the Bank Franchising department to seek input regarding the specific Franchise opportunity which you are exploring; has the Bank arranged a funding scheme for this Franchise? Why not?
- On studying the proposed Business Plan/Investment Presentation is the official inclined to support your request for funding?
- What are the terms and conditions which will apply to the loan and overdraft facilities? Securities needed? Etc.

